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1958

ROYAL COMMISSION

ON

ENERGY

HEARINGS

HELD AT

CALGARY

ALTA.

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ROYAL COMMISSION

ON

ENERGY

Hearings held at Calgary, commencing

Tuesday, April 29, 1958 at 10.00 A.M.

PRESENT:

Mr. H. Borden, C.M.G.,Q.C.,	-- Chairman
Mr. J.L. Levesque,	-- Member
Mr. G.E. Britnell,	-- Member
Mr. G.G. Cushing,	-- Member
Mr. R.D. Howland,	-- Member
Mr. L.J. Ladner, Q.C.,	-- Member
Dr. R.M. Hardy,	-- Member

COMMISSION COUNSEL:

Mr. A.S. Pattillo, Q.C.

Mr. Miles H. Patterson.

Mr. J.F. Parkinson	-- Secretary to the Commission.
Major N. Lafrance	-- Assistant Secretary to the Commission.

APPEARANCES:

Representing the Province of Alberta:

Honourable E.C. Manning, Premier of Alberta.

Mr. J.J. Frawley, Q.C. - Counsel

EXHIBITS

APPEARANCES:

Representing Home Oil Company Limited and companies associated with it in the submission:

Mr. R.A. Brown, Jr.	- President, Home Oil Company Limited
Mr. Charles Lee	- President, Western Decalta Petroleum.
Mr. David R. Williams) Mr. Bartlett F. Crawford) Mr. Wilson N. Gilliat) Mr. Philip H. Dau	- Dutton-Williams Brothers Limited.
Mr. Melvin H. Gertz	- Purvin & Gertz, Inc.
Mr. Allan Gordon	- President, Royal Securities Corporation Limited.
Mr. Paul Clark	- Lehman Brothers
Mr. N.D. McDermid, Q.C.) Mr. J.R. McColough)	- Counsel

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Tuesday,
April 29, 1958.

---On resuming at 10.00 a.m.

---The Chairman was not present.

---Mr. Commissioner Ladner was not present.

---Mr. Commissioner Levesque in the Chair.

THE DEPUTY CHAIRMAN: Mr. Premier, ladies and gentlemen, this is the opening of our second group of public hearings in Calgary, the capital of the Canadian oil and gas industry. The Commission has just come from a week of hearings in the Province of British Columbia. When we left Calgary two months ago, we said we would be back again, and here we are. We are all glad to be here again.

First of all, I regret to announce that Mr. Borden, the Chairman of this Commission, is indisposed. I am happy to report, however, he will be back in his chair in another day or two; it may be a wheelchair.

Our hearings in Calgary last February were concerned very largely with the many problems of the natural gas industry. Naturally, there will be more submissions dealing with natural gas. However, in the main, our hearings will be concerned with the marketing problems of the oil industry and with the

possible regulations of pipelines and the possible establishment of a National Energy Board.

The Commission is well aware of the overwhelming importance of the oil industry in the Province of Alberta and we are approaching our task with the full recognition of the serious nature of our work.

I also want to say after today the meetings of the Commission will be held in the Palliser Hotel and not in this Auditorium. The Secretary has copies of the timetable of the hearings and he will be glad to give them to anyone who is interested.

We are glad to have the Premier of the Province with us today and, I believe, he would like to make a statement to the Commission.

Mr. Premier, we understand your submission deals especially with gas and you may tell the Commissioners if later on in these hearings something will be presented or not. I think the public and ourselves would be interested.

Mr. Manning, would you care to address the Commission?

MR. MANNING: Mr. Chairman and Commissioners, before making our submission to you this morning, may I say how deeply we regret Mr. Borden's indisposition. I know I express the feelings of everyone here and everyone who is interested in the work of the Commission when I say that we hope he may have a complete

and very speedy recovery.

Concerning your comment regarding the future appearance to make a submission with respect to the oil industry, we would appreciate the opportunity later on in your sittings in Calgary to make a submission in that regard.

Our submission this morning, as you have indicated, deals exclusively with the subject of natural gas.

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Submission of

HONOURABLE E. C. MANNING,

PREMIER OF ALBERTA

APPEARANCES:

Honourable E.C. Manning, Premier of Alberta.

Mr. J.J. Frawley, Q.C. - Counsel

---EXHIBIT NO. CC-29-1: Submission of Honourable E.C. Manning, Premier of Alberta, concerning Natural Gas.

MR. MANNING: Mr. Chairman and Commissioners: May I at the outset express my appreciation for this opportunity to present to you the views of the Government of Alberta with respect to the development and utilization of the natural gas resources of this Province.

As a background to the observations and recommendations I would like to make, may I outline briefly the position and policy to which the Government of Alberta has adhered consistently since the production of natural gas became an important factor in our economy. We take the position that our first responsibility is to encourage under a system of private enterprise the orderly and efficient development of our oil and gas resources under sound engineering

and conservation practices.

In the disposition of gas, our policy has been and will continue to be to ensure an adequate supply to meet the present and future requirements of Alberta before we approve export to markets outside the Province. To this end, the Oil and Gas Resources Preservation Acts of 1949 and 1956 were enacted and the Oil and Gas Conservation Board is charged with the responsibility of determining the quantity of gas necessary to meet the present and future requirements of the Province and to approve the export only of that gas which is surplus to those requirements.

We concur with the generally accepted national policy that other Canadian markets, within the range of economic feasibility, should have first priority with respect to gas found surplus to the needs of our Province. We have, furthermore, consistently held that gas surplus to Alberta's requirements, which cannot reasonably be supplied to other Canadian markets due to economic or geographic considerations, should be approved for export to acceptable markets in the United States.

In considering the interests of the people of Alberta, it must be remembered that they occupy a dual position. They are the owners of over 90% of our gas resources and as owners they have a direct interest in seeing that incentive and orderly

development are maintained, that proper conservation measures are practised and that a fair and equitable price is paid for the gas produced. As consumers, they are concerned with the adequacy of supply to meet their present and future requirements, with the provision of facilities necessary to bring gas within the economic reach of the largest possible number of Alberta communities and with the matter of price to the ultimate consumer.

In the early years of gas development, the major public concern centred around the adequacy of supply to meet Alberta's present and future requirements. The proven and potential reserves of the Province are now such that no justifiable reason remains for concern as to the adequacy of supply to meet Provincial consumption.

The Government and the Oil and Gas Conservation Board have, as a matter of policy, retained for Provincial use a supply of gas sufficient to meet both annual and peak demand for a 30-year period. Computations of the reserves necessary for this purpose have given some weight to future discoveries indicated by development trends. With firmly established trends related to wildcat wells drilled over a period of years, progressively more weight can be given to future gas discoveries to meet Alberta's future requirements without in any way diminishing the security to which the people of the Province

are entitled in the matter of an assured supply adequate to meet their future requirements.

Evidence already submitted to your Commission at previous hearings with respect to proven reserves and development trends has made clear the fact that Alberta will have vast quantities of natural gas over and above Provincial requirements that properly should be made available for markets outside the Province.

In recent months, the focus of public concern has shifted from adequacy of supply to the matter of consumer price. It is only fair to say that the gas price structure, which has prevailed in this Province until recently, has been unrealistic in that it has borne little relationship to the actual energy or fuel value of gas as compared with other fuels or to the price Alberta gas could command if offered elsewhere in a competitive market. The increased volume of natural gas now consumed in the Province has necessitated the expansion and extension of gathering and distribution facilities, thereby interjecting additional costs into the domestic price. At the same time, competitive bidding for gas supplies for markets outside the Province has resulted in new gas purchase contracts at increased wellhead prices.

While adjustments in the gas price structure within the Province are inevitable and are

warranted to the degree that they result from the actual increased costs involved in producing and transporting the product, the people of Alberta, as the owners of the gas and living in close proximity to the vast sources of supply, justifiably feel they are entitled to a preferential position with respect to consumer prices within the Province. The Government of Alberta concurs in this viewpoint.

Having regard to these circumstances, the subject matter of this submission can be divided into two parts:

(1) Gas requirements within Alberta and problems related thereto, and

(2) Gas which is surplus to Alberta's requirements and available for markets outside the Province.

It is recognized that problems relating to the gas requirements of Alberta, being matters wholly within the legislative jurisdiction of the Province, properly are the responsibility of the Provincial Government and must be resolved by the Government in co-operation with the industry and the communities concerned.

To adequately ensure future Provincial requirements and to safeguard the interests of the owners, producers and consumers of gas within the Province, the Government believes that a policy of integrating the gas requirements of Alberta

communities with those of companies seeking permission to remove gas from the Province together with the integration of all major sources of supply would be beneficial to Alberta consumers and producers alike and would resolve many of the problems arising from the frequently conflicting requirements of local as compared to export markets.

While a large amount of industry has been developed in Alberta during the last decade, a substantial portion of the Province's total gas requirements is for domestic and commercial consumption. Due to the severity of Alberta winters, the ratio of winter to summer heating requirements is high which results in a low load factor market. On the other hand, a large portion of the reserves available to supply Alberta markets are from oil fields and from wet and sour gas fields and present indications are that the ratio of wet and sour gas reserves to dry gas reserves will increase. These wet and sour gas reserves must be processed and the high capital and operating costs of processing plants require that they be operated at a high load factor to keep the cost per MCF of residue gas within reasonable limits. It is necessary, therefore, to make the maximum use of dry gas and storage fields for peak load purposes.

There is also a substantial difference in the low load factor characteristics of the markets for natural gas in Alberta and the high load factors required for the economic operation of large capacity long distance export transmission lines.

The integration of Alberta market requirements with export market requirements through a provincial network of gathering lines interconnecting oil field gas and wet gas fields requiring high load factor operation and dry gas and storage fields suitable for peak load requirements would permit the most efficient use of each type of gas supply when co-ordinated with the combined low load and high load factor characteristics of local and export markets.

To this end, the Government regards as a necessity the expansion of the facilities of the Alberta Gas Trunk Line Company Limited transmission system into a province wide grid system of main gathering and transmission lines linking together all major gas producing areas of the province. It was with this ultimate objective in mind that the Alberta Gas Trunk Line Company was established initially by special statute of the Provincial Legislature. In the Government's opinion, its facilities must be expanded as quickly as it is feasible to do so until the above objective is attained.

The purpose and necessity of this objective is apparent. By linking together the major gas

producing areas of the province, many of the problems associated with the dedication of individual fields to specific markets will be resolved. From the standpoint of supplying Alberta communities with their present and future requirements, the province wide grid system would have obvious advantages. The aggregate supply of gas available to the facilities of the grid system would assure to all communities, large or small, an adequate source of supply for both present and future requirements. The main transmission lines of the grid system could be tapped at any convenient point by utility companies serving Alberta communities and the particular producing area from which the gas originated would be of little or no importance to the local consumers. A province wide gathering system, furthermore, would make possible the necessary integration between wet and dry gas fields. This, as indicated, is an important factor in that wet gas must be processed and the processing plants must, of necessity, be operated at a reasonably uniform throughput whereas withdrawals from dry gas fields may be fluctuated to meet seasonal and peak demands. The integration of these two categories of supply sources would permit the maximum degree of flexibility and assure the most efficient use of each of the two sources of supply.

As already stated, a further essential

requirement, in the opinion of the Government, is the integration of export and domestic market demand. Here again the advantages which would accrue from such integration are apparent. If gas supplies for both local and export markets were provided for in the purchase contracts with producers and the aggregate supply for both purposes was fed into the provincial grid system as an integrated supply, the export company would draw the amount of gas assigned to it for export (and for which it had contracted with producers) from the grid system at a point of delivery at the provincial boundary. The Alberta markets participating in the integrated supply would draw their share from the grid system at the nearest convenient point to the community to be served. Such an arrangement would protect Alberta consumers against the disadvantages they might suffer if gas fields in close proximity to large consumer areas were contracted wholly to export markets making it necessary for these communities to seek other sources of supply in more remote areas where transportation costs to the community to be served would be substantially higher.

The integration of export and domestic requirements also would benefit Alberta communities by enabling them to take advantage of the lower transportation costs which would be possible by reason of larger transmission lines with greater throughput.

in the opinion of the Government, it would be reasonable for gas drawn from the grid system for export markets to bear the greater portion of total transmission costs within the grid system, thereby reducing costs to Alberta communities and thus providing Alberta consumers with an advantage equal to, or greater than, they could obtain by a specific local source of supply being dedicated to their present and future requirements.

Under this arrangement, no Alberta community would be put at a price disadvantage by reason of the gas from any one source of supply being contracted entirely for an export market. Such integration of local and export market requirements also would help solve the difficult problem created by dedicating specific gas fields as reserves to meet Alberta's future requirements which will not need to be met for many years. If gas fields are so dedicated and delivery is not required for 15 or 20 years, either the producer is deprived of income pending the commencement of delivery or the community obtaining the gas is required to pay in advance for the gas in place which necessitates adding into the current rate base the cost of a future gas supply which will not be drawn on for many years.

Under a program of integration where gas from producing areas would be contracted simultaneously for both local and export markets, delivery could

commence without delay because the field would be supplying the integrated requirements instead of being immobilized as a future source of supply for one specific market.

Many problems will be involved in working out a satisfactory integrated program but the Government does not believe these problems are insurmountable.

In our opinion, there are several ways in which this objective can be attained. The most desirable procedure would be by way of negotiated agreements between producing companies, utility companies supplying Alberta communities, and companies interested in obtaining gas for markets outside the province. The Government proposes to seek, and is confident it will receive, the full co-operation of all these groups in an endeavour to arrive at a mutually acceptable arrangement that will achieve the degree of integration the Government considers essential.

Another method of attaining this objective would be for the Oil and Gas Conservation Board to require such integration as a condition of any permit issued approving the removal of a designated quantity of gas from the province to supply outside markets.

Still another alternate procedure, which has been suggested and is being studied, is the establishment of a central provincial purchasing and

sales agency to which all producers in the province would be required to sell their gas. Companies having gas under contract at the present time, with the possible exception of local utility companies, would be required to assign their contracts to the agency. The agency would enter into contracts for resale to utility companies supplying Alberta consumers and to export companies taking delivery at the provincial border. The purchasing and sales agency, in determining the price to be charged utility companies serving Alberta communities, could:

(a) apply a straight differential in the field price and/or

(b) provide for a differential in transportation costs.

Under this arrangement, gas approved for export would be required to absorb any difference in well head price plus any differential in transportation costs.

As I already have indicated, these matters are internal problems coming within the jurisdiction of the province and which must, and I may say, will be resolved by the Provincial Government in consultation with all the interests involved. Because they are exclusively in the field of provincial jurisdiction, they are not matters in which the Federal Government should, or would wish, to intervene but I have outlined our views on these problems

in order that your Commission might be fully informed as to our provincial intentions in the hope that this may be of some help to you in arriving at your conclusions and recommendations in respect to those matters relating to our gas resources which rightly come under federal jurisdiction and responsibility.

Turning to the second phase of the subject under consideration, namely, the disposition of gas which is surplus to Alberta's requirements, I already have indicated our general concurrence with the federal policy that such gas should first be available to other Canadian markets as far as geographic factors and sound, economic principles make the supply of such markets feasible. This means, in effect, that other Canadian markets should be given priority over foreign markets but only under terms and conditions which are fair and equitable to all concerned. We cannot concur in any policy that arbitrarily would restrict Alberta gas to Canadian markets at the expense of the producing companies which incur the risk and cost of development or at the expense of the people of Alberta who collectively are the owners of the gas. Such a policy, in addition to being manifestly unfair, would be contrary to both the provincial and national interests in that it would create a set of circumstances under which there might be insufficient incentive to ensure an aggressive

program of continuous exploration and development. In short, other Canadian markets desiring to obtain Alberta gas should have the first opportunity to do so provided the circumstances enable them to contract for such gas on terms which are fair and reasonable and comparable to those offered by other available markets.

I have further indicated that in our opinion gas surplus to Alberta's requirements and to other Canadian markets lying within the range of economic feasibility, as defined above, should be made available to acceptable markets in the United States.

I understand that your Commission has requested some producers to express their views as to a workable formula which might be devised to protect the reasonable demands of the Canadian market while at the same time permitting gas, which is surplus to Canadian requirements, to be exported to the United States. May I assure you that if your Commission would like the Government of Alberta to make any further submission with regard to any formula suggested, we will be most happy to do so.

It is recognized that once natural gas leaves the province in which it is produced and enters the field of interprovincial or international trade it becomes a commodity subject to federal jurisdiction and responsibility. Having regard to

this fact, the Government of Alberta respectfully suggests that your Commission should recommend the establishment of a National Energy Board with restricted but clearly defined powers with respect to the transmission and marketing of natural gas in the fields of interprovincial and international trade.

We would recommend that the National Energy Board be assigned the administration of the Pipe Lines Act and the Exportation of Power and Fluids and Importation of Gas Act. It is recognized that certain amendments to these statutes may be desirable and necessary. An Energy Board, in our opinion, should have jurisdiction over:

(a) the granting of permits for the construction of interprovincial pipe lines,

(b) the earnings of interprovincial pipe line companies,

(c) the conditions under which an interprovincial pipe line company might be declared a common carrier,

(d) the regulation of interruptible sales of gas supplied through interprovincial pipe lines to ensure that such sales are not adverse to the public interest.

The other major functions of the National Energy Board, in our opinion, should be:

(1) to determine in collaboration with provincial

boards, such as the Oil and Gas Conservation Board of Alberta, the Canadian markets which it is economically feasible and in the public interest to supply with Canadian gas.

(2) to determine what gas is surplus to the requirements of such Canadian markets and to approve the export of such gas to foreign markets.

(3) to review all export sales contracts which establish gas prices at the international boundary to ensure that no Canadian gas, entering the United States, is sold at the point of entry at a price which unjustly discriminates against Canadian consumers having regard to load factor and other pertinent circumstances.

It is of equal importance that the powers vested in a National Energy Board should in no case infringe on the jurisdiction of the Provinces and/or on the powers and duties which have been or may be assigned by Provincial Legislatures to provincial boards, such as the Alberta Oil and Gas Conservation Board and the Board of Public Utility Commissioners.

Without attempting to particularize unduly, a National Energy Board should not be empowered to interfere in any way in such fields as:

(a) the regulation or control of production,

(b) the regulation or control of well head or field prices,

(c) the regulation or control of the transportation of gas or oil within the province, including the regulation and control of transportation rates and charges,

(d) the regulation or control of ultimate consumer prices.

Whenever the public interest requires regulation of these matters, such regulation should be exercised exclusively by provincial boards under the jurisdiction of the Legislature of the province concerned.

At a later date, I would appreciate the opportunity of filing with your Commission a brief setting out our views as to the broader and more general functions which, in our opinion, the National Energy Board should perform as distinguished from the particular aspects relating to natural gas to which I have referred specifically in this submission.

All of which is respectfully submitted.

THE DEPUTY CHAIRMAN: Mr. Pattillo.

MR. PATTILLO: Mr. Chairman, Mr. Premier, you were kind enough to tell the Commission that you would be willing to answer any questions to develop the submission that you have just read to us, but I think with your permission, sir, that I would like to postpone asking you any questions until Mr. Borden himself is able to be present, because I know that he is most interested in the

problems discussed and that he too probably would want some expansion of your views, and I think it would be better for all concerned if he were present at the time. I can assure you that Mr. Borden will be arriving in the city today and he anticipates that he will be able to commence the sittings within the next couple of days. That may be a bit optimistic, but certainly he will be sitting while we are on these present sittings, and I hope you would agree that we can postpone the matter until that time.

MR. MANNING: That will be quite satisfactory to us, Mr. Chairman.

THE DEPUTY CHAIRMAN: Thank you, Mr. Premier, for your statement; it is an important contribution to the solution of the difficult problems and the many other things anticipated which are still under investigation. We thank you very much for the honour you have done us in presenting this statement to the Commission in person.

In regard to the last paragraph of your submission, if it is not asking too much, I think I would ask you to put your ministers or your men to work at once because it would be very helpful to the Commissioners.

We thank you very much.

THE DEPUTY CHAIRMAN: Shall we proceed with Home Oil now?

MR. PATTILLO: Mr. Chairman, I would suggest that we have a few minutes' recess in order to enable the representatives of Home Oil and the other companies who have joined with it in this submission to gather in their places and then we can proceed with the brief.

THE DEPUTY CHAIRMAN: Shall we meet in fifteen minutes?

MR. PATTILLO: Five minutes, I suggest.

THE DEPUTY CHAIRMAN: Five minutes?

MR. PATTILLO: Yes.

THE DEPUTY CHAIRMAN: Yes.

---A short recess.

THE DEPUTY CHAIRMAN: Gentlemen, we will now resume our hearings, starting with Home Oil. Mr. Pattillo?

MR. PATTILLO: Mr. Chairman, Home Oil and other associated companies have filed with the Commission their written submission, which I am asking be marked as CC-29-2. I have asked the Registrar to mark the submission of the Premier as CC-29-1.

I understand that Mr. Brown, President of Home Oil, will be reading the brief. Because of the bulk of it, I have asked Mr. Brown not to read

all of the submission but to commence by reading what I call the companies' own statement on the problem which they think is most important to put before the Commission. Mr. Brown?

Submission of

CANADIAN DEVONIAN PETROLEUMS LIMITED

CANADIAN HOMESTEAD OILS LIMITED

CANPET EXPLORATION LTD.

COLORADO OIL & GAS LTD.

CONSOLIDATED EAST CREST OIL COMPANY LIMITED

CONSOLIDATED MIC MAC OILS LTD.

HOME OIL COMPANY LIMITED

MEDALLION PETROLEUMS LIMITED

MERRILL PETROLEUMS LIMITED

OKALTA OILS, LIMITED

WESTBURNE OIL COMPANY LTD.

WESTERN DECALTA PETROLEUM LIMITED

CANADIAN HUSKY OIL LTD.

CANADIAN ASSOCIATION OF OILWELL DRILLING CONTRACTORS

FARGO OILS LTD.

SCURRY-RAINBOW OIL LIMITED

WEST CANADIAN OIL & GAS LIMITED

BANFF OIL LTD.

ROUND VALLEY OIL CO. LTD.

ALIDA OIL COMPANY LIMITED

WHITEHALL CANADIAN OILS LTD.

MIDCON OIL AND GAS COMPANY LIMITED

CANADIAN DELHI OIL LTD.

PEMBINA PIPE LINE LTD.

APPEARANCES:

Mr. R. A. Brown, Jr.	President, Home Oil Company Limited
Mr. Charles Lee	President, Western Decalta Petroleum
Mr. David R. Williams) Mr. Bartlett F.Crawford) Mr. Wilson N. Gilliat) Mr. Philip H. Dau)	Dutton-Williams Brothers Limited
Mr. Melvin H. Gertz	Purvin & Gertz, Inc.
Mr. Allan Gordon	President, Royal Securities Corporation Limited
Mr. Paul Clark	Lehman Brothers
Counsel:	Mr. N.D.McDermid, Q.C. Mr. J.R.McColough

MR. McDERMID: Mr. Chairman, Mr. Commissioners, I am counsel for Home Oil and the companies presenting this brief and, before Mr. Brown reads the brief, there are certain matters I would like to put on the record, with your permission.

Associated with me, as counsel, is Mr. J. R. McColough. I have prepared a list of the persons who are concerned in this submission, for the convenience of the Commission.

Besides the companies set out on the cover of the submission, we have received letters from other companies who, in substance, support this submission,

and I would like to file those letters with the submission. The first letter is from Canadian Husky Oil Ltd. The second is from Canadian Association of Oilwell Drilling Contractors. The third is from Fargo Oils Ltd. Then we have Scurry-Rainbow Oil Limited, West Canadian Oil & Gas Limited, Banff Oil Ltd., Round Valley Oil Co. Ltd., Alida Oil Company Limited, Whitehall Canadian Oils Ltd., Midcon Oil and Gas Company Limited, Canadian Delhi Oil Ltd.and Pembina Pipe Line Ltd.

In addition, since the submission was filed with the Commission, we have received the final pipeline report, and I would like to file that with the Commission. Under the tab "Pipeline Report", the pages headed "Dutton-Williams Brothers Limited" and their letter dated February 10, 1958, the second page in the map should be removed from the submission and there should be inserted the letter dated April 4, 1958 from Dutton-Williams Brothers Limited, which consists of four pages and a map. The new map changes, to some extent, the northern route of the pipeline. The last page is a schematic diagram of the alternate systems.

In addition, I would like to file, as a supplement to the Levy Report, a comparison of Redwater with Venezuelan crude at Montreal. This is just a single page.

MR. PATTILLO: We will mark the Submission

Exhibit CC-29-2.

---EXHIBIT No. CC-29-2. Submission of Home Oil Company Limited and associated companies.

Then I would like the Registrar, as soon as possible, to give us the Exhibit numbers for the letters that you have filed and for the Dutton-Williams insert and for the document from Mr. Levy.

---EXHIBIT No. CC-29-3. Twelve letters from associated companies, supporting Home Oil Company Limited's submission.

---EXHIBIT No. CC-29-4. New pipeline report.

---EXHIBIT No. CC-29-5. Addition to the Levy Report.

MR. BROWN, Jr.: We should like to begin the presentation of this brief to the Royal Commission on Energy in Canada by expressing our deep awareness of the privilege of being able to address the assembled Commissioners.

This brief is presented on behalf of the following Independent oil producers:

Canadian Devonian Petroleums Limited

Canadian Homestead Oils Limited

Canpet Exploration Ltd.

Colorado Oil & Gas Ltd.

Consolidated East Crest Oil Company Limited

Consolidated Mic Mac Oils Ltd.

Home Oil Company Limited

Medallion Petroleums Limited

Merrill Petroleums Limited

Okalta Oils, Limited

Westburne Oil Company Ltd.

Western Decalta Petroleum Limited.

In addition, there are those who have indicated support by letters filed with Mr. Pattillo.

Statement of Conclusions: As a result of our studies we have concluded:-

1. United States policy and overseas supplies of cheap crude owned by American companies have and will continue to frustrate any significant penetration of the U. S. market by Canadian crude.

2. Montreal is the only potential market that can be assured for Western Canadian crude oil in the light of existing and predicted world market conditions.

3. The use of Canadian crude will not result in any increase in consumer prices in the Montreal market.

4. Canadian light crude oil could be delivered to the refiners in Montreal at a price of 3.16 per barrel which is less than the price of Venezuelan oil on the basis of published f.o.b. prices and long-term tanker contracts.

5. This price could be achieved by taking advantage of the economies of a large diameter pipeline from Alberta to Montreal. Such a pipeline can be financed and constructed provided the refiners in the Montreal area will undertake to use Canadian crude.

6. We believe that there will be acceptance by the refining companies in the Montreal area of the principle of using Canadian crude in spite of the commercial advantages to international companies of taking their wholly owned crude from overseas. Should such acceptance fail to materialize, we believe the national interest will be ill-served.

7. Canada can eliminate more than one quarter of its merchandise trade deficit by using its own crude oil.

8. An assured market for Canadian oil would immediately act as a strong stimulus to employment in Western Canada. A 350 million dollar pipeline constructed mainly of Canadian pipe by Canadian labour would help invigorate the whole economy of Canada.

9. A supply of Canadian crude into Montreal will relieve this area in times of stress of its heavy reliance on seaborne supplies of fuel vital to its industrial activity.

Introductory Comment: This Commission is charged with ascertaining and making recommendations on the "policies which will best serve the national interest in relation to the export of energy and sources of energy from Canada."

The petroleum producing industry is only one segment of an industrial complex which operates to supply the energy needs of the economy. We, as Independent producers of oil, are only a part of

this producing industry segment.

We will confine ourselves to a discussion of the Canadian petroleum producing industry and the place of oil within the framework of a policy on energy reserves for Canada.

The Problem Stated: The economic purpose of a petroleum producing industry is to find, produce, and sell crude oil at a profit. For dynamic profit incentives to exist, two primary conditions must be present. The prospecting area must hold forth significant promise for the accumulation of oil. There must then be a ready market for its sale. Today, the Canadian petroleum producing industry has the benfit of the first requirement in great measure. Its lacks the second. Hence, we believe that incentives are beginning to fall below the level required for the full and proper development of the national petroleum resources.

Our brief is concerned with the re-establishment of these incentives.

Our producing industry is now operating at approximately 40% of its capacity. You have already been presented with statistical data by the Canadian Petroleum Association which demonstrates clearly the existing situation. We believe that the present level of activity adversely affects the economic health of this industry.

We are not moved to make this statement

because of the diminished level of over-all business activity. Our industry is, of course, being affected. This condition, however, serves merely to compound other more deep-seated factors - factors which are aggravated by virtue of their long term impact.

Review of the World Oil Situation: The oil reserves of the Middle East are said to be between 130 and 230 billion barrels and represent 23 to 40 years' world production at 1956 levels. Venezuelan reserves are estimated to be 14 billion barrels. An adequate and safe margin is usually considered to be 10 to 12 years at current production levels. With this huge potential in the Middle East and Venezuela circumstances of over supply of low replacement cost crude exist which we all recognize as having a long term character.

The two principal markets in the Free World are, of course, the great industrial economies of Western Europe and the United States. Western Europe is able to supply something less than one-tenth of its oil needs from internal sources. In contrast, the United States market has been, until recently, supplied almost entirely by a flourishing domestic industry.

The economy of the United States is now in the transition stage from exporter to importer of oil. Market demand - the greatest in the world, - has been outstripping domestic supply. Notwithstanding

there are still large reserves of domestic oil to be developed. Although it should be emphasized that these reserves can only be developed at high costs. With the growing pressure on the United States market of vast reserves of foreign oil it can readily be seen that the transition stage will be long and unsettled. It is precisely this last fact which is detrimental to the Canadian petroleum producing industry.

After World War II, when the United States demand growth became readily apparent, many United States oil companies turned to overseas sources of supply, particularly in those areas where the geological conditions were such as to indicate tremendous accumulations of oil. The subsequent discovery and development of these accumulations has created the problem which we are about to discuss.

This problem has been intensified by the development of the super oil tankers capable of carrying oil at low cost owing primarily to their foreign registry and the great volumes transported. This now adds considerably to the pressure of overseas crudes on the United States market and Middle East and Venezuela oil can be landed at ports on the United States Atlantic and Gulf Coasts at prices which are considerably below those for domestic crudes.

PART TWO: United States Oil Policy and Markets: When the mounting pressure of imports became increasingly apparent in late 1954 and early 1955, the United States Government acted to preserve the incentives for development of oil resources within its own borders for strategic reasons. It established the national security as the cornerstone of its oil policy.

Consequently, late in 1955 importers were called upon to restrict voluntarily their imports

into the Eastern United States to a level no greater than the ratio that 1954 imports bore to domestic production in that year. The West Coast, referred to as District V, was exempted from the restriction due to its deficit position. The domestic industry in that area was unable to meet demand for crude oil.

There was a further exemption of great significance to the Canadian producing industry. Imports from Canada and Venezuela were not to form part of the "quotas" established by this policy. The United States recognized that incentives for development of petroleum in the Western Hemisphere were to be considered important to its national security.

The United States oil policy was re-stated in mid-1957. Further pressure from imports caused a special cabinet committee to issue a statement on import policy. The concept of maintaining hemispheric incentives was no longer emphasized. Supplies from Canada, even though deliverable by inland pipelines and thereby strategically desirable, were classed with all foreign crudes subject to the import restriction.

On January 1st of this year "quotas" went into effect in District V. This action has anticipated the completion of a pipeline to Los Angeles from the so-called "Four Corners" area in the Southwest. A lag in the increase of expected

demand has likewise contributed to the decision. For reasons which we shall shortly discuss, this further change in United States policy has had little immediate effect on Canadian exports to this area. Its impact in the years immediately ahead may be serious, as we shall presently show. They will be doubly serious if a proposed pipeline from West Texas to California should become a reality. We mention it at this juncture to emphasize that here again there is a clear indication that the maintenance of incentives to develop Canadian oil resources for strategic reasons is no longer emphasized as a part of the United States oil policy, even though there is a clear strategic advantage for inland oil in United States markets presently supplied by pipeline from Canada.

---A short recess.

THE DEPUTY CHAIRMAN: Mr. Brown, will you now continue?

MR. BROWN, Jr.: The California Market: There are other forces at work which have equally serious implications for our industry if we should look southward for market expansion and maintenance of incentives.

A temporary increase in Canadian exports to California took place during the Suez crisis. It resulted because of the inability of the refiners

in the area to land their own supplies of overseas crudes. Immediately following a return to normalcy, overseas supplies displaced Canadian crude. This situation exists today. It exists despite the fact that Alberta crudes are competitive with crudes brought in from overseas sources of supply at published prices.

Our studies indicate that given a tanker rate of USMC-30 percent, Alberta crude would presently undersell crude from all overseas sources. Assuming long term tanker contract rates of USMC-45 per cent, Alberta oil would undersell Venezuela crudes, but would be at a disadvantage with Middle East supplies. Even at these low tanker rates, however, but taking the tariff that the Transmountain Pipeline Company indicated for a 200,000 barrel a day throughput, Alberta oil could still be landed at less cost than Middle East Oil.

This anomalous situation results from several causes. In the first place, most refiners in the area form part of integrated, world-wide United States oil companies -- the same companies that have developed and own the vast reserves in the Middle East, the Far East, and in Venezuela. These companies have a natural desire to maintain the high rate of return on the huge capital investments made in these inherently unstable areas. Moreover, these reserves have a generally low replacement cost

when measured against the costs of finding and developing reserves in the United States and Canada.

A second consideration stems from the fact that, contrary to Alberta practice where proration of production to market demand exists, these overseas supplies are not only free of prorationing but are actually being pressed to maximum rates of sales and marketing by certain foreign governments that have granted concessions. Whereas, because of the principle of ratable take in Alberta, a California refiner would have to purchase non-owned Alberta crude along with owned crude, the absence of this condition in overseas sources permits him to import, refine and sell wholly owned, lower replacement cost crude. Alternatively, he may enter into advantageous long term purchase agreements with other owners of crude in these areas. He will therefore have justifiably strong commercial reasons for preferring imports of overseas supplies. When these factors are viewed in the light of the political instability of the countries where these vast reserves are located, the great pressures on the oil economy of the United States are readily understandable.

It is these factors which explain the statement that the imposition of import "quotas" in this particular area have had little effect on the market for Alberta oil. The market was lost

well in advance of this action.

Thus, Alberta crude must always be considered no more than a balancing factor with respect to fluctuations in crude requirements for California refiners.

Puget Sound Market: In the Puget Sound area, Alberta oil has enjoyed a distinct competitive price advantage. That this advantage will remain is not, however, certain. Some production has recently been found in the State of Washington. Not as yet wholly evaluated, it might result in substantial local production becoming available in the 1960's. A recent discovery in Alaska could result in a flow of oil that would lessen demand for Canadian crude.

Furthermore, the pressure of foreign oil in the Puget Sound area would appear to be increasing. Venezuelan crude, for example, which has found its East Coast markets restricted by import "quotas" might well become a significant source of supply for this area. For example, one Washington refinery is taking crude oil from Canada, Venezuela or Quatar from a major company at supplier's option. Early in December of last year, delivery of Quatar crude was reported supplanting Alberta oil.

The Midwest Market: In the United States Midwest conditions for Canadian crude are somewhat more favourable. Certain forces similar to those

outlined are nevertheless at work.

Crude oil from Canada, and more particularly Saskatchewan, enjoys a distinct locational advantage in this market. In the Minneapolis-St. Paul area, refineries were constructed for the specific purpose of taking advantage of medium gravity crudes from South-Central and South-Eastern Saskatchewan. Light gravity crudes from the latter area are serving United States markets along the Interprovincial Pipeline route through the United States. It should be noted, however, that the present outlets in this area consist of refineries which either have not had access to domestic crude at all, or which could obtain it only by expensive, round-about transportation. Extension of the present marketing perimeter will require entry into refining areas which have access to well developed sources of supply. It will require pushing back the main stream of United States crudes and products which flow from domestic sources.

Some midwest refining companies however, have recently purchased large concessions in Venezuela. The force of commercial considerations which have already been defined will tend to oppose expansion of these markets for Canadian crude oil. The pressure of imports on both coasts, moreover, will tend to increase the desirability of markets in these inland areas for the main stream of United States crudes. The potential expansion of production in the Rocky

Mountain area must also be considered as a domestic source of supply. It is worth noting that the rate of increase in this area has been the highest in the United States since the war.

Some Conclusions on United States Imports of Oil: Firstly, the import restrictions imposed by the United States Government are harmful in their effect on ability of Canadian crude to compete for a place in United States markets. The present policy as stated by the cabinet committee in mid-1957 permits importers to choose their own source of imports, thus requiring Canadian crude to find a place under a limited ceiling on imports. In view of the factors we have outlined, the effect of these restrictions is immediately apparent.

Secondly, even though restrictions were lifted tomorrow, our oil would still be unable to find a place in United States markets where the commercial preferences of international oil companies for overseas crudes are the controlling influence.

Thirdly, in the Midwest, if the several companies that have refineries there should establish, as well they may, substantial amounts of production from recently purchased concessions in Venezuela, there will then exist strong pressure to utilize this crude even in the interior of the United States, thus further inhibiting our prospects for expansion. This could be accomplished in one of several ways; either

imported oil could be traded for domestic oil at some point on the East Coast -- this is already a fact, although on a modest scale at present; or, the oil could be refined on the East Coast and products could move West -- this will become a factor of considerable weight when the Laurel Pipeline is completed this year from Philadelphia to Cleveland; or finally, the crudes could be brought directly into Midwest refineries. We understand that this possibility is at least under consideration.

Fourthly, in the Puget Sound-California area the same forces of commercial preference preclude Alberta crude but in addition we are faced with the desire of the U.S. Government to protect a declining domestic industry and yet maintain good diplomatic relations with the countries from which its ultimate supplies of truly large quantities of oil will be derived.

The clear implication of what has just been said moves us into the realm of policy. It is apparent that, if we are to depend on the United States West Coast for substantial incentives to develop our natural resources, agreement would have to be obtained from refiners in that area to take Alberta crude on a long term basis. Without it, planning for expansion of present pipeline facilities or the construction of new facilities would be impossible. This agreement would not be forthcoming voluntarily. It

would therefore require the most explicit and long term formulation of policy by the United States Government to establish preference for Canadian oil within its system of "quotas".

The import restrictions must be maintained or without them the United States must inevitably face the prospect of diminishing the incentives for the maintenance of a high level of domestic production. Moreover, the prospect of its industrial demand for oil outstripping its own ability to supply it will impel that government to tread very carefully when viewing a policy favouring Canadian oil. Such a step might well be viewed by other exporting countries as being discriminatory. This line of thought may have already influenced the abandonment of the principle of maintenance of Hemispheric incentive.

We are thus reduced to this position. If the economic forces governing the movements of oil into the United States are allowed to have free play, the maintenance of incentives in Canada for resources development are seriously threatened if we rely on the promise of West Coast export markets. There are strong long term economic forces opposing a high level of Canadian imports relative to the total volume from all sources. These forces -- the commercial policies of importers -- are as infinitely long term as the profit motive itself. The diplomatic forces that would tend to influence the pressure on

the United States to import overseas oil are long term -- as long term as the great potential of overseas sources to meet demand. They will be acceded to by the United States Government in relation to the balance struck between the ability of these areas to produce vast quantities of oil and the increasing necessity of the United States to utilize them. This balance must, moreover, include the desire of the United States to maintain domestic producer incentives. The likelihood of capturing an increased share of the market by Canada as demand rises is truly remote.

The Impact on the Canadian Producing Industry: The resulting impact of all the factors which we have analyzed thus far can be reduced to two significant figures with serious portent for our producing industry. Our studies show that the probable demand for Canadian crude, when viewed in the light of the inhibiting factors which we have cited, falls considerably below the level where production could be if our oil did not have these factors affecting its market expansion. By 1960, this short fall is estimated to be some 200,000 barrels of oil per day. We will continue to lose ground in the ensuing years. By 1965, the factors hindering our expansion will result in a shortfall of 500,000 barrels of oil per day.

Stated in different terms, this disturbing prospect is supported by the Imperial Oil Limited brief presented to the Royal Commission on Canada's

Economic prospects in January of 1956. This company estimated that production as a percentage of producibility would stand at 44% in the year 1960. Immediately following their tabular forecast, this statement appears, and we quote: "During the 1960's it is likely there will be a substantial excess of potential over actual production, and it is possible that this situation may not correct itself until the 70's."

There are other significant figures to be noted. In 1956, average production in Western Canada was approximately 470,000 barrels of oil per day. In that year, total demand for petroleum products in Canada was a little over 700,000 barrels of oil per day. This total included imports of crude oil and refined products into Canada amounting to some 390,000 barrels per day. Exports totalled 120,000 barrels per day. For the same period daily production potential in Western Canada was estimated at 900,000 barrels of oil per day.

OIL AND THE CANADIAN NATIONAL SECURITY:

We now come to a consideration of the security of our nation.

In 1956 the United States met the oil needs of its economy with imports that represented approximately 15 percent of its total consumption. In the same year, Canada filled its requirements by importing crude and refined products in the amount of 142 million barrels. Our total consumption amounted to 261 million barrels. Thus our oil needs were supplied to the extent of 54.4 percent of the total from sources beyond our borders. Furthermore, 105.7 million barrels, or some 40 percent of requirements were delivered by ocean-borne lines of supply.

Our economy would be seriously impaired if, for any cause, our ability to import were taken from us. We would pay a heavy price for not recognizing that nations must set high the principle of being able to accomplish their own aims without external aid.

A comparison drawn between the two nations in terms of the ability of each to maintain the function of its economy must inevitably lead one to conclude that Canada has far greater cause for concern in time of crisis. It is also apparent that our concern for the maintenance of incentives must be at least as great as that of the United

States Government. If, as we believe we have shown, there is a risk that incentives cannot be maintained by looking to markets beyond our own borders, our present greater cause for concern with our safety must inevitably lead us to the conclusion that incentives for petroleum development must be provided from markets within our own borders.

Proof that we are not sounding the alarm without cause lies in the impact on Western Europe of the recent Suez crisis. This crisis would have had far less serious consequences for Western Europe, and the world, were it not for the fact that at the time it occurred, this highly industrialized area depended on tanker delivered supplies of oil for over ninety percent of its requirements. If some such crisis were to interrupt the ocean-borne supplies of crude oil to the densely populated, highly industrialized areas of Eastern Canada, the effect would be no less crippling. The Montreal market imported overseas crude to the extent of 83 percent of its requirements in 1956.

The possibility of similar disrupting events cannot be considered remote. We would remind you of recent headlines concerning the Republic of Venezuela. The detrimental aftermaths of nationalization of foreign oil investment in such countries as Iran and Mexico may be found in economic histories. This everpresent threat is a strong contributing factor in the commercial politics of

United States companies owning reserves in certain foreign countries.

Whenconsidering the impact of petroleum resources development on the national safety, it must be kept in mind that a sudden rise in requirements of oil from indigenous sources due to emergency conditions does not mean that the demand will be met when urgently needed. This is true even though there is large shut-in productive capacity as is the case in Canada today. Again, even with such capacity, it does not follow that the supply can quickly satisfy the demand when there are great distances separating the oil fields and the markets. G nerally adequate transportation facilities, capable of further expansion of necessary, must already be in place. In a word, the possibility of rapid or accelerated expansion in the face of emergency conditions is virtually zero.

Let us go further. Circumstances of a sufficiently critical nature to cut our supplies would doubtless affect those of the United States. In view of the fact that the ability to expand transportation at short notice is virtually non-existent, the United States would face a problem of such magnitude within its own borders that it could not very well divert any great portion of its domestic supplies to Canada.

In view of everything that we have stated

we cannot but urge that oil self-sufficiency for our nation is imperative.

OIL AND THE BALANCE OF INTERNATIONAL PAYMENTS: At the end of 1956, Canada showed an unfavourable balance of merchandise trade amounting to $734 million. Of this amount $271 million, or some 37 percent of the total, was paid for crude oil imports. A further sum of $165 million was expended on the importation of refined products. Although complete figures are not as yet available for 1957, the cost of crude oil imports will probably run to some $300 million. This item can be largely eliminated by Canada becoming self-sufficient in oil.

STIMULUS TO THE CANADIAN ECONOMY: The advantage of eliminating the foregoing cost from our balance of trade, together with other specific advantages, are enumerated from the following statement. We quote from a recent address delivered by Mr. C. S. Lee, the President of Western Decalta Petroleum Limited, a company supporting this brief:

"The assurance of a market for Canadian crude oil in Montreal would have the following immediate effects:

(1) Investment in exploration and development, which stood at 638 million dollars in 1956, and dropped to approximately 600 million in 1957 could drop still further under present conditions in 1958. The

assurance of a 300,000 barrel per day market would re-stimulate both exploration and development.

(2) The profits which are currently accruing to the producing companies in Venezuela and the Middle East would immediately revert to the producing companies in Canada. Such revenues would further stimulate financial activity in our Canadian markets.

(3) The bonus, royalty and rental payments to the Provincial Government and revenues by way of taxation to the Federal Government both of which will lag under lack of incentive, will be re-stimulated.

(4) The general economic effect of revitalizing the industry is bound to reflect across the country . . . the investment of a very large sum of money in the construction of transportation facilities for getting crude oil to Montreal would inevitably affect the nationwide economy."

When viewing the rather alarming decline in the present levels of employment, the stimulus in this area that would result from increased exploration and development activity in Western Canada, together with that stemming from the actual construction of a $350 million transcontinental pipeline cannot be overlooked.

INCENTIVES AND THE INDEPENDENT PRODUCER: It must be recognized, we believe, that the fundamental objectives of the independent producer in Western Canada and the international integrated

company or its affiliate working in the same area are not necessarily the same.

The independent oil producer depends for his livelihood almost exclusively upon his ability to find, produce and market his crude oil. His growth depends in the long run upon his ability to build up reserves and thus create a capital asset. His immediate and most pressing problem is, of course, financing which is dependent very largely upon the rate of pay out on his wells. The rate of pay out is tied directly to the production and this, in turn, is governed by his ability to market his oil.

On the one hand, the major integrated world wide company has an almost entirely different concept. It has no problem of financing for a particular area. Its income is derived from different countries as well as from different facets of the oil business such as refining, marketing and transportation. The major problem facing this group is the creation of strategic oil reserves. Canada, is a very desirable place to build up long term reserves as it is strategically located within the great industrial complex of the North American continent. Furthermore, it is presumably a politically stable country. Thus, income from Canadian production is not a principal factor when already developed huge reserves of relatively cheap oil can be produced abroad (the

Middle East and Venezuela) at favorable prices and moreover from areas which are politically unstable.

These integrated international companies are also the refiners of Eastern Canada to whom the independent must eventually sell their oil. Furthermore, these same organizations also control the pipeline facilities by which their oil is now moved.

From the foregoing, we conclude that the independents as opposed to the world companies are vitally concerned with the immediate and fullest possible development of the producing industry in Western Canada because that is where their entire interest lies and we believe this interest is identical with the best interests of Canada as a nation.

THE MONTREAL MARKET AND COMMERCIAL PREFERENCES OF IMPORTERS: Having shown desirability of a policy of self-sufficiency in oil, we draw the attention of the Commission to the fact that the previously cited inhibiting commercial preferences of United States importers operate with equal force in our own Montreal market.

The preference of the large international oil company for using, in its own refineries, wholly owned, low replacement cost crudes from politically unstable sources is not restricted by international boundaries. Their desire for so-called "hard currencies" is likewise a factor of significance.

It is for this reason that we stated at the

outset that self-sufficiency in oil for Canada is not possible unless the refining companies in Montreal concur with us in our belief that this principle is in the best interests of Canada.

As stated at the outset, our studies conclude that these markets can be supplied with domestic oil and that there should be no upward pressure on consumer prices because they are based on parity prices of imported oil products.

We should like to stress that at this stage in our oil development we know the levels of our reserves and our ability to supply demand to a more precise degree than was the case when Interprovincial Pipeline was built. As our studies have shown, it has resulted in the ability to plan the construction of a pipeline to take advantage of the economies inherent in such relatively close appraisals. From the standpoint of financing, therefore, there is less risk involved than there was when we expanded our marketing perimeter to Sarnia and became more self-sufficient than we were.

FEASIBILITY STUDIES AND MONTREAL MARKET: To demonstrate the economic feasibility of transporting Western Canadian crude oil to Montreal, and because Mr. Levy reported that the Toronto requirements of crude oil by 1965 would exceed the indicated capacity of Interprovincial Pipeline, we engaged the services of Dutton-Williams Bros. Ltd.

to make the necessary detailed investigation of a pipeline to Montreal.

In the first place in considering the practical question of transporting crude oil from Western Canada to Montreal, financial interests must have assurance of markets. While we have demonstrated that the market exists, we still need the necessary assurance. Subject to this, our studies now would show that between 70% and 75% of the indicated refinery demand of the Montreal area could be satisfied by Canadian crude by 1960 and probably 80% by 1965. This is equivalent to 320,000 barrels per day in 1965. It is on this basis that the line study has been predicated.

In the second place there must be an assurance that there are sufficient crude reserves and producibility to support the new market. The Canadian Petroleum Association has already submitted to this Commission a brief showing that the present available reserves are approximately 3½ billion barrels. By 1960, when further reserves will have been discovered, the total markets for Canadian crude, including the Montreal market will be about 360 million barrels per year and producibility in 1960 will be 500 million barrels per year.

Reserves and producibility are thus indicated.

The engineers, after considering several

permutations as to size and route, selected a 30" line as being the most economical for the period under review (up to 1969) and for the minimum average throughput postulated. They selected a route from Edmonton to Regina, alternative northerly and southerly routes between Regina and North Bay, and then a route from North Bay to Montreal.

The routes have been flown or traversed by car, and complete engineering estimates for all pump stations, crossings, etc., have been made. Consideration has been given to the types of crude to be taken into the line which will be most appropriate for delivery to Montreal and the composite characteristics of the crude flowing through the line have received full attention. In short, a comprehensive study has been made.

In support of our argument a construction programme has been worked out and a check with suppliers revealed that pipe could be delivered to meet a completion date of December, 1959, if work were started immediately. The twelve or thirteen construction "spreads" required for the project will be available from Canada.

With this in mind the engineers report that by 1965 there would be a total investment of:

$372,897,000 for the southern route 30" line

$423,164,000 for the northern route 30" line

for an average throughput of:

200,000 barrels per day in 1960

320,000 barrels per day in 1965

Based upon this estimate of investment the "cost of service" or pipeline "tariff" during the fifth year of operation will be:

51.8¢ per barrel

Assuming an Edmonton price of $2.633 per barrel for light crude, this crude can be, therefore, landed in Montreal at:

$3.16 per barrel.

Mr. Chairman, with your permission I would like to just read briefly two pages to supplement what I have said.

Our submission has focussed on the urgent problems of the Canadian oil producing industry and the critical need to expand its marketing range by moving Canadian oil to Eastern Canadian refineries that now operate on foreign crude oil supplies.

Our solution is based upon the conviction that a pipeline to Montreal can be built without custom duties on foreign oil, subsidies, government built pipelines, or any penalties to the consumers of Eastern Canada.

We have stressed the strategic importance of linking our industrialized areas in the east with a secure stream of Canadian oil.

We have pointed out that the substitution of Canadian oil, for foreign imports would eliminate

more than a quarter of our nation's deficit in its merchandise trade.

We have noted the benefits upon the entire Canadian economy of a 350 million dollar undertaking - employing Canadian labour, Canadian steel and other Canadian materials.

In my concluding remarks, I would like only to review the highlights of our presentation.

1. Canadian crude oil is now being produced at less than 40% of the industry's capacity and in Alberta at less than 35%. The development of one of Canada's most valuable natural resources is being stifled by lack of markets.

2. For the foreseeable future, the oil markets of Eastern Canada offer the only practicable solution to our problem. We have been disillusioned in the last few months by the poor prospects of markets in the United States. The combination of restrictive import policy on the part of the United States Government and the preference on the part of U. S. importers for overseas crudes from prolific foreign concessions will in our opinion keep sizable quantities of Canadian crude out of the U. S. market.

3. To sell Canadian crude in Eastern Canada hinges upon the transportation cost. In Canada, owing to the vast distances, transportation costs are always of paramount importance. To minimize transportation costs, large and continuous volumes

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

must be moved by major diameter pipelines. Our feasibility studies show conclusively that Canadian oil can be transported at a rate of 2.6 cents per hundred barrel miles. This compares to the 3.6 cents per hundred barrel miles currently charged by Interprovincial. At this point we wish to observe that Interprovincial's tariffs are a result of step by step construction. This "piece meal" approach was occasioned by shortage of large diameter pipe, uncertainties as to the size of the oil reserves and the necessary markets required to be served and intermediate deliveries. At this time I suggest that we learn a lesson from the past. Let us not continue a piece meal approach by building a little here and a little there. We now have the reserves, we now have sizable markets, we now can build the large diameter line necessary to provide transportation at 2.6 cents per hundred barrel miles.

4. Western Canadian crude oil can be delivered into Montreal at prices competitive with those of foreign imports. Ontario refiners are now operating profitably on Canadian crude. Montreal refiners can also operate profitably on Canadian crude.

The essential link is the willingness of Montreal refiners to accept Canadian crude if it is made available to them on competitive terms.

Canadian oil now faces a unique opportunity to economically capture a new market not available to it by modification or extension of the present

system. Over the next few years a pipeline system keyed to the potentials of an expanding Canadian market should enable producers, refiners and consumers to share in the economies of building for the future.

Thank you, sir.

THE DEPUTY CHAIRMAN: Mr. Pattillo?

MR. PATTILLO: Mr. Chairman, I spoke to Mr. Brown before he commenced his brief and, in addition to the material which he has just presented to us, the brief contains a long report from Mr. Levy, appendices to that report, the report of Dutton-Williams and the report of Purvin & Gertz. Now, my thought would be that, before any examination was begun, these documents, which are there, and to which I have referred, should be deemed to have been read into the record; but that, in addition, for the purpose of full appreciation of the problem, Mr. Brown, or somebody in his group, should give us a short summary of the contents of the Levy Report and the other reports to which I have referred.

MR. BROWN Jr.: May Mr. McDermid read the summary, sir?

MR. PATTILLO: Yes.

MR. McDERMID: 1. Any study on the prospects of the Canadian oil producing industry must begin with certain judgments about its underground resources. Such judgments would, of course, be conjectural; final answers are still hidden in the earth. But on the basis of present indications, it can safely be assumed that Canada's oil resources are substantial, although not so prolific as, say, in the Middle East. Furthermore, Canadian oil will tend to be subject to rising costs of exploration and

development in the future, as is the case with U.S. oil.

2. Canadian oil cannot, therefore, expect to compete for overseas markets with foreign supplies that are drawn from seemingly bottomless reserves and whose replacement costs are relatively low. However, Canada and the United States together constitute a tremendously large market for petroleum products, with an expected rate of growth that exceeds the apparent productive potential of the two countries combined. Thus, Canada's recently discovered and still expanding oil resources should be in a position to contribute substantially to future requirements in North America.

3. This prospect, however, involves an uncertain future. And while a basic strength of Canadian oil lies in its location, that location poses exasperating problems and issues at the present time.

4. Initially, Canadian crude found its market outlets close at hand in the Prairie provinces. Being more favourably situated than the U.S. crudes (and products) that had supplied the area, Canadian oil was able to command a relatively high wellhead price. With the rapid development of reserves following the Leduc and Redwater discoveries, however, Canadian crude had to seek additional and more distant market outlets. But Canadian crude, by virtue of its interior, land-locked location, couldn't trickle into the more remote refining centers. It had to be

delivered by pipeline in large and continuous flows -- and at prices that were competitive with alternative sources of supply. Transportation and effective price competition thus became closely interrelated. In consequence, Canadian wellhead prices were bound to reflect (a) wellhead prices of competitive crudes, (b) relative transportation costs of Canadian and competitive crudes, and (c) the foreign exchange rate on Canadian currency. Thus, when Canadian crude reached Sarnia in April 1951, Canadian wellhead prices were sharply reduced (29 to 44 cents per barrel) in order to meet the competition of U.S. crudes and taking into account the pipeline charges that were involved.

5. Since 1951, Canadian crude has extended its market frontier in several directions. In the east, it moves to refineries in the Toronto area. In the U.S. Midwest (Minnesota-Wisconsin), it has been able to establish itself where U.S. crudes could move only via roundabout means of transportation. In the west, Trans Mountain Pipe Line brought Canadian crude to British Columbia, and then to the Puget Sound area where product requirements had previously been met by northward shipments from California and where new refineries were constructed to operate on Canadian supplies.

6. Meanwhile, the development of Canadian reserves and productive capacity continued at a rapid rate. Significantly, in recent years, the

rate of development exceeded the rate of growth in requirements for Canadian crude within the market area in which it had established itself. Thus, the Canadian oil producing industry now finds itself operating at around 50 per cent of capacity. Drilling activity has slowed down, and the incentives for future resource development are threatened.

7. This experience of recent years poses forcibly the basic problem of the Canadian oil producing industry. There is, on the one hand, a rate of development that could be supported by Canada's physical resources. On the other hand, the trend in Canadian crude oil production is determined by growth in requirements within the market area it serves. If the economic prospects that depend on markets and production are limited, then the Canadian oil industry may not be able to realize fully the growth potential that is inherent in its physical resources. For a time, the producing industry could continue to operate at low rates of capacity. Inevitably, the rate of development will be retarded, as incentive for continued exploration and development are impaired.

8, Looking ahead, we review the probable demand for Canadian crude in the refining centers in which Canadian crude has established itself. Over the years immediately ahead, a combination of circumstances could tend to influence favourably Canadian crude requirements. A projected expansion

in Canadian refining capacity should permit a higher degree of product self-sufficiency. The extension of Interprovincial to Toronto could solidify the position of Canadian crude in eastern Ontario. Finally, announced expansions in the capacity of refineries in Washington, Minnesota and Wisconsin would increase the potential U.S. demand for Canadian crude. Recent economic developments, however, becloud the near-term outlook. Oil requirements were adversely affected by a retardation in business activity during 1957, and the prospects for 1958 are not more encouraging. There are further uncertainties associated with U.S. import policy. Thus, the full effect of these favourable trends may not be realized until some time in the early sixties and the Canadian producing industry could face further years of greatly restricted output.

9. Beyond that date, the demand for Canadian crude will be largely confined to the annual increases in product demand within its watershed. Some additional gains would probably be made in U.S. export markets that are currently being reached. But in the absence of a major expansion in the flow of Canadian crude to the United States (which is reviewed below), the rate of increase in Canadian production would be further retarded. On balance, the demand for Canadian crude could approximate 1,000,000 barrels per day by 1956.

10. Predictions of future reserves and productive

capacity are subject to a wide range of familiar uncertainties. Exploratory efforts are affected by a host of factors, including finding prospects, costs, prices, market outlets, tax policies, etc. -- all of which contribute toward the shaping of "incentives" for oil operations. And actual results, from time to time, may not conform too closely to efforts, depending on the fortunes that play so important a role in oil prospecting. Over the long run, however, it will be Canada's physical resources that will -- with the right incentives -- determine the levels of reserves and production that could be obtained.

11. The Royal Commission's study on Canada's Energy Prospects, and the consensus of industry opinion, project the level of production at around 3,000,000 barrels per day in 1980. By linking the record of past experience with long range estimates of reserves, capacity and production, a trend of potential Canadian crude oil production over the coming years can be traced out. But the probable levels of production which present markets for Canadian crude would make possible through about 1965 appear to fall considerably below the potentials that Canadian resources might support. By 1965, the gap is likely to be some 500,000 barrels per day.

12. To the extent that the prospects for Canadian crude in existing markets fall short of

levels of production that Canadian resources might potentially support, the opportunity for a more favourable performance would depend on the possibility of extending the marketing perimeter of Canadian crude. This could involve a major expansion of refining capacity along the perimeter itself, operating on Canadian crude with products capturing an increasing share of the area's watershed. Or it could involve reaching out to the next large refining complexes: i.e. San Francisco in the west; Chicago or Detroit-Toledo in the South; or Montreal in the east. In each case it would entail intensified competition with the main stream of U.S. crudes or of low-cost foreign crudes.

13. An expansion of market outlets for Canadian crude would obviously mean the opportunity for increased production and a new fillip to the development of the producing industry. However, it would also involve, as in the past, certain costs in order that Canadian crude establish its competitive position against other supplies. More significantly, commercial considerations of major refiners in these potential markets will pose added difficulties against the flow of Canadian crude. And the export market in the United States would depend in large measure on the course that U.S. import policy is likely to follow.

14. A natural outlet for Canadian crude would be on the U.S. West Coast. Canadian oil is now supplying refineries in the Puget Sound area, with

further expansion projected. And the West Coast, which is already a deficit area, is expected to require increasing imports in the future to supplement local production. Canadian oil would be competitive with Venezuelan or Eastern Hemisphere crudes, considering respective f.o.b. prices and normal transportation costs, as far south as the San Francisco Bay area. A reduction in Trans Mountain rates at expanded throughput to about the level indicated in its original prospectus would permit Canadian crude to achieve a pro forma cost advantage even at very low tanker rates for overseas supplies.

15. But these conditions have been as true of the recent past as they would be in the near future. Yet Canadian crude has not been able to establish itself as a regular source of supply for California refineries; offshore liftings at Vancouver have been confined to those occasions when access of California refiners to other foreign supplies has been interfered with, as by the tanker shortage during the Suez crisis. The major refiners on the West Coast are affiliated with integrated companies, all owning vast reserves in the Eastern Hemisphere and most having a strong position in Venezuela. In these overseas areas, reserves are established and replacement costs low. Owned-production, or even long-term purchase arrangements, mean greater over-all profits. In contrast, a West Coast importer can

only get access to Canadian (Alberta) crude, because of prorationing among all producers, by taking purchased oil ratably along with owned-production. Thus, given a choice among foreign crude sources, these companies will probably continue to prefer other foreign supplies to Canadian oil.

16. The competitive status of Canadian crude at Puget Sound is, of course, strong; but even there it is not an assured position. Recent discoveries in Washington and Alaska could mean a substantial flow of U.S. oil which would tend to displace Canadian supplies if and when it reaches sizable proportions. Also, the commercial preference of U.S. companies, indicated above, will play a role in determining the rate of refinery expansion in the area (as against California) and the source of that area's crude and product supplies.

17. The United States is about to establish restrictions on the level of crude oil imports into the West Coast beginning in 1958. A lag in domestic demand coupled with new pipeline connections from the Southwest have reduced the volume of supplemental supplies required from foreign sources; and individual importers are being asked voluntarily to limit their receipts of foreign crude, but are left free to select from among alternative sources. While U.S. import policy is apt to evolve in the future according to changes in the West Coast supply-demand balance, the

obstacles posed by commercial preference for Eastern Hemisphere crudes could be magnified so long as low cost crudes are pressing for a limited market outlet within a U.S. import ceiling. Thus, Canadian crudes are only likely to achieve an expanded and assured flow to the U.S. West Coast if Canadian oil, by virtue of its location and interior pipeline connections, is given a preferential status along with U.S. domestic crudes.

18. In the U.S. Midwest, Canadian crude would have to establish a position against the main stream of domestic crudes. To reach major refining centers, it would have to equalize at a lower delivered price, incur an added transport charge, and absorb the U.S. duty -- all of which amounts to a competitive disadvantage upwards of 10 cents per barrel, depending on the market area. If competitive equality could be achieved, via reduced wellhead prices or pipeline rates, Canadian crude might then face less formidable obstacles on the part of individual companies than on the West Coast. U.S. crude production in major producing areas is prorated much the same as Alberta crude, so that the factor of owned vs. purchased oil would tend to be less critical. Furthermore, most Midwest companies are active in Canadian oil development.

19. On the other hand, many of these same Midwest companies have recently entered actively into

overseas exploration. As foreign production in new concessions is developed, there will be strong incentives to capitalize on overseas investment by bringing that oil into the United States, either by exchanging it advantageously at seaboard for equivalent domestic crude, or by moving the foreign crude or products refined from foreign crude directly into Midwest marketing areas. Here too, so long as U.S. import policy is directed at limitations on total imports, the overseas production of U.S. companies will be actively competing for the limited access to U.S. markets. And U.S. domestic production is likely to be pressed increasingly upon interior markets as foreign crude moves to both East and West Coasts. Again, Canadian crude is apt to find itself at a disadvantage unless reasons of national security should lead the U.S. to establish explicit preference for Canadian oil as a safe source of supply.

20. On balance, therefore, any substantially expanded market for Canadian crude in the United States in the near future would hinge on the development of U.S. import policy. Over the long run, however, as U.S. requirements move increasingly ahead of U.S. production and the gap that imports must fill grows large, the U.S. market should provide an outlet for substantial quantities of Canadian crude.

21. As compared with expanded export markets

in the United States, the movement of Canadian crude eastward to Montreal poses even more acute competitive problems. To reach Montreal, Canadian oil must span a distance as great as that from Venezuela, and at the much higher costs associated with overland transportation. On the basis of current wellhead prices and an assumed extension of the Interprovincial Pipe Line tariff to Montreal at prevailing barrel-mile rates matched against long term tanker rates, Canadian crude would face a disadvantage of some 25 cents per barrel versus Venezuelan crude. (The disadvantage would be larger as against Middle East crudes.) That disadvantage could be overcome by various combinations of (a) a reduction in Canadian field prices; (b) lower pipeline charges; or (c) a change in Dominion policy with respect to an import duty on crude oil.

22. For the Canadian producer, the apparent losses involved in a modest reduction of wellhead prices could be offset in large part, if not in entirety, by the accelerated rate of operations that penetration of the Montreal market would permit. Thus, the current and future capitalized value of reserves need not be adversely affected if, for example, a 10-cent cut in wellhead prices were accompanied by the opportunity for additional production of 200,000 barrels per day. This could be an especially important consideration for smaller

producers who are so dependent on a current flow of funds with which to finance exploration and development.

23. With reference to the possibility of reduced pipeline charges, there are several relevant considerations. First, it would appear that somewhat lower barrel-mile rates could be realized over the long haul than those currently in effect. At the time of Interprovincial's original construction, the Canadian oil industry was still at an early stage of development; knowledge about its reserves was limited and forward planning for market requirements was necessarily constrained. In addition, large diameter pipe was not available at the time of a great deal of its construction. At present, the question is less that of available resources than of potential markets. If forward planning for a substantial eastward movement of Canadian oil were supported by market expectations, then the construction of expanded facilities should be able to benefit from the advantages associated with large-diameter, long-distance pipeline transportation. The Royal Commission's study on Canadian Energy Prospects, for example, indicates that light crude oil could be delivered over modern long-distance pipeline, operating close to capacity, for around 2 to 3 cents per 100 barrel-miles, as against about the current tariff of 3.6 cents per 100 barrel-miles for Edmonton to Sarnia.

24. In addition, there is the possibility of "telescoping" pipeline tariffs so as to minimize costs for the long haul. The Interprovincial rate structure already includes this feature, its barrel-mile charges being higher for closer deliveries than for long-distance movements. If it is decided to establish the competitive position of Canadian crude at Montreal, consideration might be given to simultaneous adjustments in wellhead prices and pipeline charges. Minimum rates could be established for shipments to Montreal; intermediate points might have to carry a somewhat larger share of the pipeline's total costs, but refiners along interior locations would not actually have to pay higher delivered prices for their crude, since reduced wellhead prices would more than offset the effect of telescoping the pipeline's rate structure.

25. A Canadian import duty on foreign crude could be still another factor in improving the competitive position of Canadian oil at Montreal. At present, Venezuelan crudes that enter eastern Canada also move in quantity to the U.S. East Coast. There they have to be competitive with the main stream of U.S. crudes from the Gulf. Thus, Venezuelan f.o.b. prices tend to compensate for the U.S. tariff to the extent necessary to make them competitive with U.S. supplies -- and they are available for lifting as Canadian imports at the same f.o.b. prices without

having to carry a Canadian duty when they arrive at Montreal. A Canadian duty, therefore, would tend to restore a competitive position for Canadian oil which is indirectly affected by the U.S. tariff.

26. At the present time, Canadian imports of petroleum products are subject to tariffs, averaging around 18 cents per barrel of refinery output at Most-Favored Nation rates. With product imports constituting a substantial portion of eastern Canada's supply stream, product prices tend to reflect those duties. To the extent that eastern product prices have a ceiling set by the cost of imported products, higher crude costs at Montreal -- whether for Canadian or foreign crude, due to a crude oil tariff or other reasons -- are not apt to be passed on to the consumer in the form of higher prices.

27. The discussion thus far has concerned only the narrow problem of achieving competitive equality at Montreal between Canadian and foreign crudes, on the bases of their respective f.o.b. prices. While the disadvantage of Canadian crude of around 25 cents per barrel is large, it could apparently be overcome. A 10-cent reduction in wellhead prices and pipeline charges and a 10-cent duty, for example, would more than offset that disadvantage.

28. But companies that operate refineries at Montreal have other strong commercial reasons for turning to foreign crude supplies. Many of them

have access to production of affiliates in Venezuela and the Middle East. Large foreign reserves and low replacement costs combine to provide a powerful incentive toward the continued use of overseas supplies. These commercial considerations of individual companies pose a series of obstacles similar to those faced by Canadian crude in the San Francisco market, with the difference that Montreal operations are "national" to Canada while San Francisco operations are "foreign". To establish Canadian crude at Montreal would therefore not only require the efforts of the Canadian oil industry to achieve competitive equality with foreign crudes. It would probably further require an explicit formulation of public policy in support of Canadian markets for Canadian crude oil.

29. The United States -- whose practice in this regard may or may not recommend itself to Canadians -- has acted to protect its domestic markets for domestic crude oil production by setting individual "quotas" for importing companies and calling upon them voluntarily to comply. Thereby, the U.S. producing industry, whose development is deemed essential to its national security, is supported by voluntary action of the refining industry, even though compliance by individual refiners involves its foregoing of potential commercial advantages in each instance.

30. The cost of oil imports could be an additional consideration in the determination of Canadian

policy. In 1956, crude oil imports were valued at $271,000,000 and were an imposing item in Canada's $734,000,000 deficit in the balance of merchandise trade. An expanded export market for Canadian crude or the replacement of foreign crudes in eastern Canada would contribute significantly to the nation's foreign trade balance.

31. In sum, the Montreal market is not an obvious direction of expansion from a logistic point of view and it poses the more difficult problems even in the narrow context of competitive price relationships. If the possibilities of exports to the United States appear to be adequate to the future development of the Canadian oil economy, and the uncertainties attaching to market expansion in the United States are not too discouraging, then Canadian oil may reasonably await a future expansion of its export markets without actively seeking an outlet in eastern Canada.

32. If, on the other hand, the uncertainties of the U.S. export market appear to inhibit the balanced development of Canadian resources, or the cost of waiting for expanded market opportunities in the United States is too high, then the Canadian producing industry might have to seek relief where its own national policies could prove effective. This would, in fact, mean a penetration of the Montreal market.

MR. PATTILLO: I think I should state that

Mr. Levy is not here today with this group but he has advised the Commission he will make himself available for examination and we anticipate that he will be here on the Monday following the coming Monday.

THE DEPUTY CHAIRMAN: Gentlemen, we will adjourn until 2.15.

---Whereupon the hearing adjourned, at 12.20 p.m., until 2.15 p.m.

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---On resuming at 2.15 p.m.

THE DEPUTY CHAIRMAN: Gentlemen, we will now resume the hearing. Mr. Pattillo?

MR. PATTILLO: Thank you, Mr. Chairman. Mr. Brown, will you have somebody give us a summary of the Dutton-Williams Brothers report on the proposed line, an alternative line and also a summary of the report of Purvin and Gertz, Inc. an

MR. BROWN, Jr.: Mr. Chairman and Mr. Commissioners, before proceeding with the reading of the Dutton-Williams report and the Purvin and Gertz report, I would like to make certain observations with regard to the summary and conclusions of the Walter J. Levy report as read to you this morning by Mr. McDermid.

I would like to bring to your attention that this report was commissioned more than one year ago and was completed in December 1957.

Our first step in attempting to analyse the future market for Alberta oil was to obtain Mr. Levy's report which, among other things, established a differential in price between Venezuela and Alberta crude oil of .25¢ per barrel in the Montreal market. Mr. Levy suggested ways in which this amount could be absorbed, for example:

a 10 cent in tariff

a 10 cent reduction in transportation costs

a 10 cent reduction in the field price of crude oil

These adjustments, in his opinion, would more than compensate for the adverse differential.

After obtaining Mr. Levy's report, which projected existing pipeline tariffs, we hired Dutton-Williams Bros. Ltd. to prepare an engineering report which established a much lower pipeline tariff to Montreal than estimated by Mr. Levy and therefore altered Mr. Levy's suggested solution as to how to absorb a .25¢ adverse differential. Mr. Levy's opinion, as a result of the Dutton-Williams study, is reflected on the supplemental page to his report as submitted this morning by Mr. McDermid.

As a result of these developments, a supplementary statement has been made by Mr. Levy, and we filed it with the Commission this morning. This supplementary statement establishes the difference between the Edmonton price of Redwater crude under current conditions and the price of Oficina crude delivered in Montreal, or in other words, the pipeline tariff necessary to be competitive with Venezuelan crude.

This difference is stated by Mr. Levy to be 70.1¢.

The Dutton-Williams Bros.' study established that a cost of service of 51.8¢ per bbl. can be achieved.

With your permission, sir, I will proceed with the Dutton-Williams Brothers report dated April

14th, 1958.

Home Oil Company Limited, 304 Sixth Avenue West, Calgary, Alberta.

Gentlemen: In accordance with your recent instructions, we have prepared the attached Preliminary Engineering Report on the proposed Alberta-Montreal Pipeline crude oil system. We believe the report sufficiently examines the factors involved and adequately defines a system for planning purposes.

Conclusions: 1. Under the conditions considered, the 30-inch "Southern Route" system appears to offer the most economical transportation and also the best balance between investment and operating cost.

In evaluating the alternatives, a number of possible sizes of the main pipeline and possible routes were considered. A comparison of the recommended system with one of the possible alternate routes is made in the report to illustrate the basis for the above conclusion. The capital requirements for the initial and tenth year of operation are summarized for the two systems compared, as follows:

	Southern Route	
Classification	1960	1969
Constructions Costs	$307,500,000	$332,100,000
Line Fill	24,100,000	24,100,000
Interest during Construction	12,100,000	12,600,000
Working Capital	1,900,000	1,900,000

Classification	Southern Route 1960	Southern Route 1969
Financing Costs	$ 7,800,000	$ 7,800,000
Total	$353,400,000	$378,500,000

Classification	Northern Route 1960	Northern Route 1969
Construction Costs	$342,300,000	$367,800,000
Line Fill	23,900,000	23,900,000
Interest during Construction	13,500,000	14,000,000
Working Capital	1,900,000	1,900,000
Financing Costs	8,400,000	8,400,000
Total	$390,000,000	$416,000,000

2. Based upon the capital requirements for the recommended system, the 30-inch Southern Route System, the "cost of service" during the fifth year of operation per barrel transported as projected in the report is 51.8¢. "Cost of service" in this case includes depreciation, interest, operating cost, return on investment and income taxes. We believe a normal tariff schedule for crude oil pipelines employing this amount as the primary transportation charge from Alberta to Montreal could be recommended and that earnings generated at this rate on the assumed average throughput will be sufficient to effect financing of the project.

Report Summary: 1. The initial capital requirements for the recommended system amounts to approximately $353,400,000 of which $307,500,000 is attributable to cost of the installation.

2. The initial system consists of

approximately

1,919 miles of 30-inch Main Line

100 miles of 26-inch gathering line

71.5 miles of 16-inch gathering line

73.5 miles of 10-inch gathering line

1,700,000 barrels of steel tank storage

35,000 installed horsepower in pumping facilities

3. The initial capacity of the system is 253,000 BPD and by addition of pumping facilities may be economically increased to 393,000 BPD.

4. Average annual throughputs have been assumed to increase from 200,000 BPD in the first year of operation to 385,600 BPD in the tenth year, the final year considered.

Preparation of the Report: Route reconnaissance was made by automobile and aircraft over the various possibilities, and as a result two principal routes were selected for final consideration. A further check of critical points and alternate sections on these routes was made as needed. Detailed notes of a number of previous investigations over the entire area were also of assistance, as were actual construction cost information on the several existing pipeline systems which parallel some parts of the routes considered.

Pipeline route locations were made with

the use of aerial photographs and topographic maps and based upon the reconnaissance notes.

Hydraulic studies of the various routes were made after profiles were developed from the above information. Schematic arrangements of a number of alternative designs and routes were then produced. On the basis of preliminary cost estimates, a number of the alternatives were then eliminated. More exact cost estimates were then compiled for remaining alternates using quotations from manufacturers and other realistic data.

Operating costs then were prepared which further reduced the alternative schemes then deserving further comparison.

Financial requirements have been developed for the alternate systems to determine required income over the period of years from which tariff rates were selected. The rates were then used to project pro forma financial data for the future years of operation to test their adequacy.

Volume 1A is generally arranged to begin with the premises, followed by a design discussion, and concluded with the financial data derived therefrom. Volume II defines the system recommended in specification form suitable for incorporation with later detailed drawings and final bills of materials into complete plans and specifications of the system.

It is hoped that the report contains

design decisions and sufficient definition of the system to facilitate the planning of this project.

Respectfully submitted,

DUTTON-WILLIAMS BROTHERS

R. G. Murray, Jr. (signed)

R. G. Murray, Jr.

Executive Vice-President

With your permission, sir, I will read the use of Canadian Crude Oils in the Montreal Refineries, dated February 5, 1958, which is the report of Purvin & Gertz, Inc. Dallas, Texas.

A study has been made of the use of Canadian crude oil in the Montreal refineries. The primary purpose of this study was to analyze the physical problems involved in the substitution of Canadian crude for the crudes presently used in these refineries. This investigation has been based upon the market forecasts for Eastern Canada presented by W. J. Levy, Inc., in a report of December, 1957, along with published information on the processing facilities in the Montreal refineries and the crude oils presently utilized.

The Levy Report presented the following estimates of oil demand for the Province of Quebec.

(Thousands of Barrels Daily)

	Canadian Crude	Foreign Crude	Product Imports	Total Crude & Product Demand
1960	-	282	32	314
1965	-	396	-	396

The Quebec demand for products, which represent only part of the total market served by the Montreal refineries, was estimated in the Levy Report as follows:

	1960		1965	
	1,000 B/D	%	1,000 B/D	%
Motor Gasoline	61.8	25.6	85.4	26.5
Distillates	82.4	34.1	105.6	32.7
Heavy Fuel Oil	64.9	26.9	86.0	26.6
Other Products	32.4	13.4	45.8	14.2
Total Products	241.5	100.0	322.8	100.0

The refineries under consideration as the Montreal market are as follows:

	Present Rated Capacity Barrels/Day
Imperial Oil Limited	69.000
Shell Oil Company of Canada Limited	60,000
McColl-Frontenac Oil Company Limited	55,000
The British American Oil Company Limited	50,000
Canadian Petrofina Limited	23,000
Total	257,000

The information available to us indicates that these refineries have been using predominantly Venezuelan crude oil, along with some crude from the Middle East. The overall average crude charge to these plants is estimated at 31°API, with the principal crude streams ranging from 25° to 35°API.

From our study of the products demand and the individual capabilities of the refineries, it is our conclusion that the Montreal refineries could use 70% to 75% Canadian crude oil in place of the

present imported crudes by the year 1960. Based on the estimates in the Levy Report of the total crude requirement for the Montreal refineries in 1960, this percentage would represent approximately 200,000 barrels per day of Canadian crude. Furthermore, it is our opinion that 80% substitution could be achieved by 1965, equivalent to 320,000 barrels per day of Canadian crude. These opinions are based on the physical utilization of the crude to meet the indicated demand for products. We have not endeavored to analyze the possible economic consequences for each of the operating companies.

Our estimates on the substitution of Canadian crude are based primarily on replacing the present average 31°API gravity crude with 35° API Redwater crude, which was considered typical of the average Western Canadian crude that might be available. The use of higher gravity crude oil as a refinery charge tends to increase gasoline production. Since refinery runs in Montreal are presently limited by gasoline sales, a similar restriction would be imposed in the substitution of the higher gravity crude oils. To balance the market demand with the use of Canadian crude in the amounts indicated above, the remainder of the present crude oil imports must be replaced by additional fuel oil imports and/or heavy crude oil imports. The optimum balance of supply would probably result in some

reduction in refinery runs along with an increase in fuel oil imports. In addition to the limitations imposed by the market for gasoline, allowance was made in our estimates for the continued use of certain special crude oils for production of lubricating oils and asphalts, where the quality of the Canadian crudes may be doubtful.

The substitution of Canadian crude to the extent indicated above with increased reliance on fuel oil and heavy crude oil imports should represent a reasonable program for the transition from imported crude oil to Canadian crude. Since the individual refineries have different types of processing facilities and are utilizing different crude charges at the present time, there might be some deviation expected, both above and below our estimated average percentages. However, with the cooperation of the individual refiners and with the proper coordination of the supply problems, it should be possible to achieve at least the average substitution indicated. This type of transition has previously occurred in the case of the British Columbia refineries where Canadian crude was substituted for lower gravity imported crudes with increased dependence on fuel oil imports.

In the course of this study, the operations in each of the Montreal refineries were analyzed, and several alternate processing plans were

considered for the substitution of Canadian crude. We shall be glad to make available and discuss any of these data in support of our present opinions.

MR. PATTILLO: Mr. Brown, I would like to try and summarize just what your proposal to the Commission is, and I will endeavour to state it and at the conclusion wherein I have stated incorrectly I wish you would say where I am wrong. The proposal of your company and these other companies which you have joined in this brief is that a 30" pipeline should be constructed from Alberta to Montreal along the southern route proposed by Dutton-Williams and that if this was done oil could be moved at a cost of 2½¢ per barrel 100 miles and the oil could be laid down in Montreal at $3.16 per barrel. To make this feasible, I understand you to say that all that is required is the willingness of the refineries in Montreal to purchase Canadian crude and that you are not asking for any government assistance or subsidy or any tariff,, quota or embargo. Now, am I correct in that?

MR. BROWN JR.: I think, sir, that we feel that if a voluntary use of the crude for a long-term period could not be effected in long-term contracts, then a quota would become necessary, import quota.

MR. PATTILLO: Now, I was going to ask you what voluntary co-operation have you in mind would be required from the refineries.

MR. BROWN JR.: I believe, sir, that the minimums we would require would be a minimum of 15-year purchase contracts for the purchase of 200,000 barrels

[illegible]

a day in 1960 and increasing to 320,000 barrels a day in 1965 or approximately 80% of the then projected market.

MR. PATTILLO: And do you contemplate producers in Alberta and Saskatchewan entering into long-term contracts and agreeing to supply?

MR. BROWN JR.: If, under the laws of Alberta where we have a prorationing system and where refiners request an allotment of oil each month -- if that is not adequate to permit financing, then contracts of a similar nature would be required from the producers.

MR. PATTILLO: So in your first impression of the thing you do not contemplate the producers entering into contracts to supply at all, you contemplate a contract between the refineries and the pipeline company; is that what you mean?

MR. BROWN JR.: That is correct, sir.

MR. PATTILLO: How would the price that would prevail from time to time be determined?

MR. BROWN JR.: In the same manner, sir, that it is determined now. My impression is that we are part of a global industry; the price of oil in Alberta is influenced by the price of mid-continent oil in Sarnia, the price of oil in the mid-continent in turn is affected by Gulf Coast prices which would be affected by changes in prices in Venezuela or the Middle East. In other words,

the justification for change of price of oil in Alberta is at all times related to changes that take place outside of Canada -- the one exception to that being the foreign exchange rate, that might be considered local.

MR. PATTILLO: So you would contemplate the laid-down price of mid-continent at Sarnia being the governing factor and a cut-down in the cost of transmission and then determining a wellhead price.

MR.BROWN JR.:Yes, that is the basis on which we are operating and will continue to be.

MR. PATTILLO: Now, in connection with this pipeline that you contemplate, do you contemplate it being a one-delivery point pipeline, that is the terminus at Montreal being the only delivery point, or are you contemplating take-off points?

MR.BROWN JR.:If I may take a minute to answer your question, sir, the primary intention of our brief to the Commission was to establish that it was feasible economically and practicably to take Alberta oil and put it into Montreal. In the pipeline facet of our submission again we took what we considered the worst set of circumstances to prove that we could put Alberta oil into the Montreal market. In a detailed analysis of our thinking relating to a pipeline, it is obvious that we would look to obtain any market on the route of the pipeline or close by the route of the pipeline that may become

available to us. That would include, perhaps our hope in years to come, markets in the United States, it could include a further requirement in the Toronto market, in addition to the Montreal market.

MR. PATTILLO: Now, in the proposed two alternative routes am I correct in thinking that if it was considered in the national interest advisable to have an all-Canadian route, then the southernroute would be out and you would only have the northern route available?

MR. BROWN.JR.: That is correct, sir. In that event I think you will recall,Mr. Pattillo, that we were originally requested to appear before the Commission some weeks back. Much of the data and selection of the route was done in a very great hurry; I think it could be classified as a colossal job of Dutton-Williams Bros. If we were to look atthe least economic route I think we would desire to amend slightly the route as indicated in the report filed with you this morning.

MR. PATTILLO: I was going to ask you if you had any figures as to the cost of transmission from one terminalto the other, assuming that this all-Canadian route as shown in the plan was used.

MR. BROWN JR.: Yes, sir, we do have.

MR. PATTILLO: And what is that price?

MR. BROWN JR.: Using the northern route, sir, the cost of service in the fifth year would be 54.8¢.

MR. PATTILLO: There are one or two more questions that I would like to ask. In order that I can clearly understand, we will have your proposal or a summary of it before us. You have mentioned the price of transportation in each instance as to the fifth year of operation. What do you estimate it would cost to transport per 100-mile barrel from the commencement of the operation of the line until the fifth year?

MR. BROWN JR.: The fifth year, sir, represents an average of the first ten years. If you would like me to read into the record, for the southern route the first year is 75.8¢, that is 1960, 75.8¢; 1961, 66.5¢; 1962, 60.5¢; 1963, 55.3¢; 1964, 51.8¢; 1965, 47.9¢; 1966, 45.4¢; 1967, 43.8¢; 1968, 41.5¢; 1969, 39.6¢.

MR. PATTILLO: Now, I want to get some information, if I can, regarding the companies that have joined with Home in the brief. First of all, where is the head office of Canadian Devonian Petroleums Limited?

MR. BROWN JR.: With your permission, sir, I will ask Mr. Charles Lee to answer these questions.

MR. PATTILLO: Please.

MR. LEE: The head office of Canadian Devonian Petroleums Limited is at 1855 Rose Street, Regina, Saskatchewan. Do you wish me to go through the whole list, sir?

MR. PATTILLO: No, take one at a time. Where is this company carrying on its operations - - in Saskatchewan or Alberta or in both provinces?

MR. LEE: In both provinces, sir - - mainly in Saskatoon.

MR. PATTILLO: Who has what I would call the practical control of this company?

MR. LEE: That I would not be able to answer without a specific list of the shareholders of that particular company, sir, and I don't have it.

MR. PATTILLO: Are the officers of the company Canadian?

MR. LEE: The majority are Canadian, yes.

MR. PATTILLO: Do you know whether or not there are no directors who are other than Canadians?

MR. LEE: No, sir, I do not.

MR. PATILLO: Do you know whether the control of the company is situate outside of Canada?

MR. LEE: No, I could not answer that for the same reason, that I have not got a shareholders' list, sir.

MR. PATTILLO: How long has the company been in operation?

MR. LEE: Since 1951.

MR. PATTILLO: H. ' many wells has it capable of production in the Province of Alberta?

MR. LEE: I can't give you that information

directly, sir, but I can ascertain for you.

MR. PATTILLO: Can you tell how many wells it has capable of production in the Province of Saskatchewan?

MR. LEE: No, sir, I can't, but I can tell you for the combined provinces of Alberta, Saskatchewan and Manitoba..

MR. PATTILLO: All right.

MR. LEE: It is 101.9 net wells.

MR. PATTILLO: Can you tell us what the economic allowable is in the Province of Alberta for the wells of this company, in the aggregate?

MR. LEE: I would have to get that information for you, sir; I haven't got it here.

MR. PATTILLO: Will you please get it for all the provinces?

MR. LEE: I will do that.

MR. PATTILLO: Can you tell me what is the replacement cost of oil of this company?

MR. LEE: Not of this particular company, sir, no.

MR. PATTILLO: Will you get us that information?

MR. LEE: I will.

MR. PATTILLO: Now, the next company is Canadian Homestead Oils Limited. Where is its head office?

MR. LEE: Its head office is in Room 201,

528 9th Avenue West in Calgary.

MR. PATTILLO: How long has it been in existence?

MR. LEE: Since 1947.

MR. PATTILLO: Where is it carrying on operations?

MR. LEE: Primarily in Alberta.

MR. PATTILLO: Does it carry on any operations in Saskatchewan?

MR. LEE: Yes, it does.

MR. PATTILLO: How many wells has it in the aggregate that are capable of production?

MR. LEE: Held net working interests are 81 oil wells and 24 gas wells. I haven't here the figure for the net equivalent wholly-owned wells.

MR. PATTILLO: Have you any figures as to its economic allowables?

MR. LEE: No. That would apply, of course, to each individual field and each individual well in which it has its interests.

MR. PATTILLO: But you don't know what the sum aggregate is?

MR. LEE: No, sir, I don't.

MR. PATTILLO: Are the directors of this company all Canadians or are any of them other than Canadians?

MR. LEE: No, there are other than Canadians, sir.

MR. PATTILLO: Are they in the control of the Board?

MR. LEE: That I would not be able to answer without specific reference to the shareholders' list of that particular company.

MR. PATTILLO: I am interested in the Board of Directors for the moment. How many directors are there?

MR. LEE: There are ten directors.

MR. PATTILLO: How many of them are not Canadians?

MR. LEE: All I can say is as a result of looking at the list of directors and their addresses, sir. I don't know their specific nationality, of course, but I notice here that there are five out of ten directors have addresses in the United States.

MR. PATTILLO: What part of the United States?

MR. LEE: Four are from Tulsa and one from Houston, Texas.

MR. PATTILLO: Do you know anything about the share control of this company and where it lies?

MR. LEE: No, sir. Oh, I have here, yes, there are some figures here. The total number of shares issued are 3,346,900; the shares held in Canada are 1,338,800; the number of Canadian shareholders is 39%. The number of shares held outside

Canada is 2,008,100; the number of foreign shareholders is 61%.

MR. PATTILLO: And do you know whether or not in that 61% any substantial block of shares is owned by a company in the United States that is engaged in the oil business in that company?

MR. LEE: No, sir, I do not know that.

MR. PATTILLO: Will you get me that information, please? I also want to know if it is a fact that a company engaged in the oil business in the United States is a substantial shareholder, whether or not that company is a member of any association connected with the oil and gas business in the United States that has been making representations to Washington as to the importation of oil into the United States.

MR. LEE: Very good, sir.

MR. PATTILLO: The next company is Canpet Exploration Limited. Where are its head offices?

MR. LEE: Its head office is at 720 Seventh Avenue West, in Calgary.

MR. PATTILLO: How long has it been in business?

MR. LEE: Six years, in Canada.

MR. PATTILLO: Is it a Canadian company?

MR. LEE: No, I would say that it was, for the most part, owned by English interests. Do you want the details of that, sir?

MR. PATTILLO: Would you tell me whether it is incorporated in England and carrying on business here under license?

MR. LEE: No, it is incorporated in Canada.

MR. PATTILLO: But the shareholdings are largely English and we will come to that later.

When was it incorporated in Canada?

MR. LEE: I think there is a representative of it here. Shall I refer that question to him, sir?

MR. CULLINGHAM: 1952, sir.

MR. PATTILLO: Now, where is Canpet Exploration carrying on operations in Canada?

MR. LEE: Its operations are primarily in Alberta but it also has interests in Saskatchewan.

MR. PATTILLO: Can you tell me how many wells it has that are capable of production?

MR. LEE: May I also refer that --- oh, I

have it here; excuse me. It has eleven producing wells in Saskatchewan and 24 in Alberta.

MR. PATTILLO: Can you give me any information regarding its economic allowables?

MR. LEE: No, sir, I can't, without specific reference to the particular fields.

MR. PATTILLO: Will you get me that information, please?

MR. LEE: Yes, sir, I will.

MR. PATTILLO: Are there directors of this company other than Canadians?

MR. LEE: Yes, sir.

MR. PATTILLO: How many does the Board of Directors consist of?

MR. LEE: May I refer that question to Mr. Cullingham again, please, sir?

MR. CULLINGHAM: There are eight, sir, of which one, Mr. Chambers, is a Canadian.

MR. PATTILLO: Eight directors, of which one is a Canadian and the other seven ---

MR. CULLINGHAM: Four English and three Americans.

MR. PATTILLO: Four English, three Americans and one, Mr. Chambers, a solicitor, a Canadian.

Where does the share control of this company lie?

MR. LEE: It lies in the United Kingdom, sir.

MR. PATTILLO; Has any affiliated or associated company of this company operations in the Middle East or Venezuela or in the United States, in the oil business?

MR. LEE: Yes, sir, it has.

MR. PATTILLO: Where?

MR. LEE: Venezuela.

MR. PATTILLO: Is any of its production in Venezuela being sold to Canada in the Montreal or Halifax markets?

MR. LEE: May I refer that question, again, to Mr. Cullingham?

MR. CULLINGHAM: As far as we know, no. We market a certain amount of our oil through refineries in Venezuela, but we certainly sell none directly to Canada.

MR. PATTILLO: When you are talking about selling some of the refineries in Venezuela, do you mean refineries in Venezuela that are exporting products into Canada?

MR. CULLINGHAM: We have not that information.

MR. PATTILLO: Will you get it, please?

MR. CULLINGHAM: Yes.

MR. PATTILLO: Mr. Cullingham, can you tell us what the replacement cost of your oil is, in Canada?

MR. CULLINGHAM: Without going into figures in the office, I can't, sir.

MR. PATTILLO: I beg your pardon?

MR. CULLINGHAM: Not at the moment.

MR. PATTILLO: Will you get me that information, please?

Now, Colorado Oil and Gas Limited: where is the head office of that company?

MR. LEE: This is a Delaware company. That is not a precise answer to your question. Can I call on Mr. Trafford to reply, in detail?

MR. TRAFFORD: The company is incorporated in Delaware. It is a wholly-owned subsidiary of Colorado Oil and Gas Corporation of Denver. The local office is in Calgary.

MR. PATTILLO: How long has the company been in existence?

MR. TRAFFORD: Colorado Oil and Gas Limited has been in existence about 2 1/2 years.

MR. PATTILLO: How long has it been carrying on business in Canada?

MR. TRAFFORD: About 2 1/2 years.

MR. PATTILLO: How many directors on the Board?

MR. TRAFFORD: As I recall, there are six directors on the Board.

MR. PATTILLO: Are any of them Canadians?

MR. TRAFFORD: No.

MR. PATTILLO: How many producing oil wells do you have in Canada?

MR. TRAFFORD: Colorado Oil and Gas Limited has, in round figures, 40 net wells.

MR. PATTILLO: Where are they situated? In Alberta or Saskatchewan?

MR. TRAFFORD: Both, sir.

MR. PATTILLO: Can you give me the breakdown in provinces?

MR. TRAFFORD: I am afraid I cannot give you that exactly. I would say it is about two-thirds Alberta and about one-third Saskatchewan.

MR. PATTILLO: Can you tell me what your replacement cost is, of oil?

MR. TRAFFORD: No, I'm afraid I can't do that.

MR. PATTILLO: Will you get that information, please?

MR. TRAFFORD: I will try, sir.

MR. PATTILLO: Does the parent company of Colorado Oil and Gas Limited belong to any association in the United States which has been making representations to Washington regarding the importation of oil into the United States?

MR. TRAFFORD: As far as I know, no.

MR. PATTILLO: Where does the parent company carry on its operations in the United States?

MR. TRAFFORD: Colorado Oil and Gas Corporation carry on refining operations in Wichita, Kansas. It carries on producing activities in many

of the midcontinent States, in Texas, Louisiana, Colorado itself and maybe a few other places, but those are the main ones.

MR. PATTILLO: Thank you very much.

Consolidated East Crest Oil Company Limited: where is its head office?

MR. LEE: 735 Eighth Avenue West, Calgary.

MR. PATTILLO: Is it a Canadian company?

MR. LEE: Yes, it is.

MR. PATTILLO: When did it come into existence?

MR. LEE: In 1928.

MR. PATTILLO: How many directors has it on its Board?

MR. LEE: There are seven directors.

MR. PATTILLO: Are any of those non-Canadians?

MR. LEE: No, sir; they are all Canadians.

MR. PATTILLO: Where does it carry on its operations?

MR. LEE: Primarily in Alberta. It also has land interests in British Columbia, Saskatchewan and Ontario.

MR. PATTILLO: Has it any producing wells in any part of Canada other than the Province of Alberta?

MR. LEE: No, sir, they are all in Alberta.

MR. PATTILLO: How many are there?

MR. LEE: They have interests in 20 oil

wells and 2 gas wells. I have not got the net wholly-owned wells.

MR. PATTILLO: Would you get that, please, together with your allowables?

MR. LEE: Yes.

MR. PATTILLO: Have you any information as to the replacement cost of its oil?

MR. LEE: Mr. R. G. Price is here. He is the president of the company. May I refer that question to him?

MR. PRICE: General manager. I do not quite understand your question. What do you mean by replacement cost of the oil, sir?

MR. PATTILLO: What I want to get at, Mr. Price, and everybody else, is that in the submission and in Mr. Levy's report, there are repeated references to the low replacement cost of oil in Venezuela and in the Middle East. Now, I am going to make inquiries as to what knowledge we have of the replacement cost of oil in Venezuela and in the Middle East and I want, for comparison purposes, also, to get at the replacement costs in Canada so that we can see what factors would have to be taken into consideration in determining whether or not this pipeline is a feasible one.

MR. PRICE: I will try to get that data for you, sir.

MR. LEE: Mr. Pattillo, if I might break in, I have some overall figures in that regard, if

they are of any value to you.

MR. PATTILLO: I intend to come to the over-all figures and it may be that, when I get there, they will be adequate, but ---

MR. LEE: Yes.

MR. PATTILLO: Would the gentleman from the Colorado Oil and Gas please stand up for a moment?

MR. TRAFFORD: Sir?

MR. PATTILLO: Thank you. Does your parent company or your company belong to the United States Independent Producers Association?

MR. TRAFFORD: I believe they do, but I would like to check that to be sure.

MR. PATTILLO: Am I correct in thinking that it is that Association that has been strenuously opposing importation of oil into the United States?

MR. TRAFFORD: My understanding of the activities is that that is so, but I cannot go into it in detail.

MR. PATTILLO: Will you please inquire from your parent company and file that information with the Commission?

MR. TRAFFORD: Yes, sir.

MR. PATTILLO: Thank you.

Consolidated Mic Mac Oils Limited: where is its head office?

MR. LEE: Its head office is at 11536 Jasper Avenue, Edmonton.

MR. PATTILLO: Is it a Canadian company?

MR. LEE: Yes, sir, it is.

MR. PATTILLO: It came into existence when?

MR. LEE: 1953.

MR. PATTILLO: How many directors?

MR. LEE: Eight.

MR. PATTILLO: Any of them non-Canadians?

MR. LEE: Yes.

MR. PATTILLO: How many?

MR. LEE: Three.

MR. PATTILLO: Where did they come from?

MR. LEE: Midland, Texas; New York and Chicago.

MR. PATTILLO: Do you know where the share control of this company is held?

MR. LEE: I have some figures here.

MR. PATTILLO: Would you please give them?

MR. LEE: Yes. The number of shares issued is 2,553,058. The number of shares held in Canada is 1,097,815. The number of Canadian shareholders is 43 per cent. The number of shares held outside Canada is 1,455,243.

MR. PATTILLO: Are any of those shares held outside Canada held by a company which is engaged in the oil business in the United States, the Middle East or Venezuela?

MR. LEE: Without reference to the company, I would not be able to answer that question.

MR. PATTILLO: Would you please get me that information?

MR. LEE: I will.

MR. PATTILLO: Where does this company carry on business in Canada?

MR. LEE: Primarily in Alberta but it also has interests in Saskatchewan.

MR. PATTILLO: How many producing wells has it?

MR. LEE: Would it be in order for me to defer that question, sir, while somebody just calculates this?

MR. PATTILLO: Thank you. I would like the same information regarding this company which I asked for in connection with the others.

Now, may I come to Home Oil Company, Mr. Brown, and I believe you did give me the figures, the last time you were here, as to the breakdown of shareholders of this company and there was a substantial majority of Canadians, is that right?

MR. BROWN, Jr.: That is right, sir.

MR. PATTILLO: Is there any substantial block of shares held by any company ---

MR. BROWN, Jr.: Yes, sir.

MR. PATTILLO: --- which is engaged in the oil business, either in Canada or in the United States or in Venezuela or in the Middle East?

MR. BROWN, Jr.: There are more than 800,000

"B" class or voting shares in Home Oil owned by United Oils Limited.

MR. PATTILLO: And is United Oils Limited also a Canadian corporation?

MR. BROWN, Jr.: Yes, sir.

MR. PATTILLO: Where is the control of the United Oils Limited held?

MR. BROWN, Jr.: I, personally, own control of United Oils Limited, sir.

MR. PATTILLO: You own that?

MR. BROWN, Jr.: Yes.

MR. PATTILLO: How long has Home Oil Company been engaged in business?

MR. BROWN, Jr.: Incorporated in 1929, sir, I believe.

MR. PATTILLO: It is carrying on business in the Province of Alberta; is it carrying on business in any of the other provinces?

MR. BROWN, Jr.: Essentially, no. We have miscellaneous land holdings on which there is no production both in Saskatchewan and some in the Province of Ontario.

MR. PATTILLO: How many producing wells has the company?

MR. BROWN, Jr.: I came unprepared for the question; I am taking the information out of a report. This is not our own.

MR. PATTILLO: I would not want anything but the most accurate information.

MR. BROWN, Jr.: May I appear with it tomorrow, sir?

MR. PATTILLO: Thank you. Can you tell me, what is the replacement costs on your company's holdings in the Province of Alberta?

MR. BROWN, Jr.: I would be prepared to give a guess on that tomorrow; I would prefer to give it on our finding costs rather than on our replacement costs.

MR. PATTILLO: I do not want to compare apples with oranges and if Mr. Levy makes statements here, maybe he would be the only one that would be able to give us the information and he talks about replacement costs.

MR. BROWN, Jr.: I shall endeavour to get an answer, sir.

MR. PATTILLO: Has Home Oil any subsidiary companies carrying on business in any other countries?

MR. BROWN, Jr.: We have a subsidiary called Home Oil of Canada Limited which, together with others, owns a certain acreage in the Williston Basin in the United States on which there is no production.

MR. PATTILLO: Have they taken any position regarding the importation of oil into that country?

MR. BROWN, Jr.: No, sir. Medallion Petroleums Limited; where is the head office of

that company?

MR. LEE: The home office is at 512 - 4th Avenue West in Calgary.

MR. PATTILLO: Is it a Canadian company?

MR. LEE: Yes, it is.

MR. PATTILLO: How many are on the Board of Directors?

MR. LEE: Six.

MR. PATTILLO: Are any non-Canadian?

MR. LEE: Yes.

MR. PATTILLO: How many?

MR. LEE: Four.

MR. PATTILLO: Where do they live?

MR. LEE: Two in New York; one in California -- I made a mistake in my previous statement, it is not four, it is three who live in the United States.

MR. PATTILLO: And three live in Canada.

MR. LEE: Three live in Canada, yes.

MR. PATTILLO: Do you know where the share control in this company lies?

MR. LEE: Yes, I have some figures here.

MR. PATTILLO: Give them to me.

MR. LEE: There are 3,446,895 shares issued. There are 1,731,950 shares held in Canada.

MR. PATTILLO: Leaving how many in the United States?

MR. LEE: Leaving 1,714,945 held outside of Canada.

[illegible]

[illegible]

[illegible]

[illegible]

[illegible]

MR. PATTILLO: Are any of those shares held outside of Canada held by a company engaged in the oil business in the United States, Venezuela or the Middle East?

MR. LEE: I would prefer not to answer that question in the absence of any representatives of the company.

MR. PATTILLO: You can get me the information?

MR. LEE: Yes.

MR. PATTILLO: I would also like to know, if the answer turns out to be in the affirmative, whether such company, if it is engaged in the business in Venezuela or the Middle East is selling any of its crude oil products to Canada; if it is engaged in the United States, if it has taken any position regarding the importation of oil into the United States and if so what the position is.

MR. LEE: Very well.

MR. PATTILLO: Merrill Petroleums Limited; where is its head office?

MR. LEE: Since we formulated this group, Merrill Petroleums Limited has been taken over by Pacific Petroleums.

MR. PATTILLO: Is it now a wholly-owned subsidiary of Pacific Petroleums?

MR. LEE: I would prefer not to answer that question in the absence of a representative of the company.

MR. PATTILLO: Would you please get that information for me?

MR. LEE: I will.

MR. PATTILLO: Can you tell me where it is carrying on business; in what province?

MR. LEE: Prior to its absorption by Pacific Petroleums Limited the bulk of its production was in Alberta.

MR. PATTILLO: And how many producing oil wells did it have in that province?

MR. LEE: I shall have to make inquiries; I do not have the figures here.

MR. PATTILLO: Would you get me the information in connection with all of this inregard to that company?

MR. LEE: I will do that.

MR. PATTILLO: Are you sure of the information in connection with the other companies that appear in the brief or have you the information I was seeking in connection with Okalta Oils, Westburne Oil Company Ltd. and Western Decalta Petroleum Limited.

MR. LEE: I think I have most of it here.

MR. PATTILLO: Then we will carry on: You can start with Okalta Oils, Limited.

MR. LEE: Okalta, the number of shares issued, 3,569,731; shares held in Canada, 2,967,216 leaving the number of shares held outside of Canada as 602,515.

MR. PATTILLO: How many directors are there?

MR. LEE: There are nine directors.

MR. PATTILLO: Are any of them non-Canadians?

MR. LEE: Yes, one.

MR. PATTILLO: Where does he live?

MR. LEE: London, England.

MR. PATTILLO: Was this company carrying on business in all the provinces or just Alberta?

MR. LEE: Primarily in Alberta and secondarily in Saskatchewan.

MR. PATTILLO: How many producing wells has it and if you can break it down into provinces, do so?

MR. LEE: I do not have that information here, sir; I will have to give it to you at a later date.

MR. PATTILLO: Have you any further information regarding those companies about which I have not yet asked?

MR. LEE: Would you phrase that a little differently, please, sir?

MR. PATTILLO: Perhaps that was a little shortened; I mean along the lines of the questions I have been asking.

MR. LEE: We will get the information under the same categories that you requested for the other companies.

MR. PATTILLO: Westburne Oil Company Ltd.; is that a company that is carrying on business in southern Saskatchewan that appeared before us in Regina?

MR. LEE: No, sir, it has no connection.

MR. PATTILLO: Where is this company's head office?

MR. LEE: 550 Sherbrooke Street West, Montreal.

MR. PATTILLO: Was it carrying on business in the west?

MR. LEE: About equally divided as between Alberta and Saskatchewan.

MR. PATTILLO: How many producing wells?

MR. LEE: It has 27.23 net petroleum wells.

MR. PATTILLO: Approximately equally divided between the two provinces?

MR. LEE: Approximately equally divided.

MR. PATTILLO: How many directors has it?

MR. LEE: Nine.

MR. PATTILLO: Are any of them non-Canadians?

MR. LEE: One.

MR. PATTILLO: Where does he live?

MR. LEE: London, England.

MR. PATTILLO: Do you know anything about this company; whether it has any affiliated or associated companies engaged in the oil business in Venezuela, the Middle East or the United States?

MR. LEE: I know that they do not.

MR. PATTILLO: You know that they do not?

MR. LEE: That is right, do not.

MR. PATTILLO: Western Decalta Petroleum

Limited; where is its head office?

MR. LEE: 703 - 5th Street West, Calgary.

MR. PATTILLO: Is it a Canadian company?

MR. LEE: Yes, it is.

MR. PATTILLO: Was it carrying on business in Canada?

MR. LEE: Primarily in Alberta.

MR. PATTILLO: How long has it been in existence?

MR. LEE: Since 1947.

MR. PATTILLO: How many producing wells has it?

MR. LEE: 91 net petroleum wells.

MR. PATTILLO: How many directors has it?

MR. LEE: Nine.

MR. PATTILLO: Are any non-Canadians?

MR. LEE: There is one non-Canadian.

MR. PATTILLO: Where does he live?

MR. LEE: He lives in Chicago.

MR. PATTILLO: Where is the share control of the company; is it inside or outside of Canada?

MR. LEE: May I answer that a little differently, to be accurate: 1 million of the total issue is held in the United Kingdom; the total amount of shares issued, 4,239,190. The number of shares held in Canada and this includes the 1 million although they are held in Canada they are actually held by a group in England, 2,923,885 and the number of shares

held outside of Canada 1,315,305.

MR. PATTILLO: Do you know whether any of the shareholders are companies that are engaged in the oil business in the Middle East, Venezuela or the United States?

MR. LEE: No, sir, they are not.

MR. PATTILLO: Now, I am not going to ask you to give me some information regarding the other companies supporting your brief, but I would like to know in respect of each of them if they are associated or affiliated with any company in the United States, Venezuela or the Middle East which is either selling crude oil products to Canada or has taken a position regarding the importation of oil into the United States. You told me, Mr. Lee, you had some general figures. Can you give me the average replacement costs of oil for these companies?

MR. LEE: No, I cannot for these particular companies. I was referring to some bulk figures for original areas such as Venezuela itself, the United States and so on.

MR. PATTILLO: Perhaps you would give us the information you have.

EE

MR. LEE: These figures were taken from a bulletin issued by J.S. Herold Incorporated. It is entitled "Petroleum Outlook", and the figures were published in March of this year. For the Middle East he quotes a finding cost figure of .005 dollars per barrel; for Venezuela he quotes a figure of .14 dollars a barrel; for Canada he quotes a figure of .95 dollars per barrel, and for the United States he quotes a figure of 1.12 dollars per barrel.

---A short recess.

THE DEPUTY CHAIRMAN: Mr. Pattillo, will you carry on?

MR. PATTILLO: Thank you, Mr. Chairman.

Now, can we get a little definition of this thing? What is, in your language, this "finding cost" to which you have been referring? What do you say that is?

MR. LEE: May I start by making a correction, Mr. Pattillo? In referring to those figures just now I called them finding cost. I recollect now that they were finding and development cost. Now may I go ahead and answer your question?

MR. PATTILLO: Yes.

MR. LEE: A finding cost, as I understand it, is strictly the cost of the exploring for oil.

MR. PATTILLO: Yes.

MR. LEE: That could include land acquisition

geophysics, geology and the initial test well. If it had to be two test wells to find the oilfield, then whatever number was necessary to find the field. Now, development, on the other hand, is the actual developing cost of a field.

MR. PATTILLO: Once the original discovery has been made?

MR. LEE: Yes.

MR. PATTILLO: So when you combine the finding and development you are then talking about the original exploration cost and the subsequent development cost?

MR. LEE: That is correct, sir.

MR. PATTILLO: Now, what do you understand Mr. Levy was saying when he was talking about replacement cost?

MR. LEE: I would like that question to be put to Mr. Levy, and I feel in that case we would be in a much better position to make a comparison of figures.

MR. PATTILLO: Now, Mr. Brown, you have been in this business in Alberta for a good many years, and I would just like to build this up a bit historically. Prior to the construction of the Interprovincial pipeline, which was begun, I think, in 1949, what were the markets for Alberta oil?

MR. BROWN, Jr.: Prior to Interprovincial the markets, as I remember them, were essentially in

the Province of Alberta.

MR. PATTILLO: And then pro rationing came into being before the Interprovincial pipeline or after the Interprovincial pipeline?

MR. BROWN, Jr.: My memory would be that pro rationing would come into effect prior to completion of Interprovincial. I don't recall whether it was in effect at the time Interprovincial construction started. We can get those figures for you.

MR. PATTILLO: Were they in any way linked with one another, pro rationing and the construction of the Interprovincial pipeline?

MR. BROWN, Jr.: I am not sure if I understand your question. If Interprovincial had not been built or its equivalent we would have had very severe pro rationing in Alberta.

MR. PATTILLO: You would have had very severe pro rationing?

MR. BROWN, Jr.: Yes.

MR. PATTILLO: Because before Interprovincial came you had no market at all outside the Province, and that would be limited to a very few barrels per day?

MR. BROWN: Yes, that is correct. One addition to that might be the barrels that were trucked out of the Province.

MR. PATTILLO: What is the purpose of pro rationing as you understand it in your experience

in the oil business?

MR. BROWN, Jr.: I believe, sir, that pro rationing is an attempt to have all of the wells within the Province share in proportion to their ability to produce, in proportion to the reserves which exist in the fields in which the wells are located equitably in the available market.

MR. PATTILLO: Does it result in there being far less activity in the marketing branch of the producing company than would otherwise be the case?

MR. BROWN, Jr.: I cannot answer a question relating to marketing. We are not in marketing.

MR. PATTILLO: You are marketing in crude.

MR. BROWN, Jr.: Yes. Is that your question?

MR. PATTILLO: Yes.

MR. BROWN' Jr.: Would you please re-state your question?

MR. PATTILLO: Would the Reporter please repeat the question?

THE REPORTER: "Does it result in there being far less activity in the marketing branch of the producing company than would otherwise be the case?"

MR. BROWN, Jr.: Yes, sir.

MR. PATTILLO: And outside of Interprovincial Pipeline and Trans Mountain there are no other oil outlets except what may be trucked out of the Province; is that correct?

MR. BROWN, Jr.: I believe that is a correct statement, sir.

MR. PATTILLO: Did independent companies have anything whatever to do with the incorporation and establishment of the Interprovincial Pipeline?

MR. BROWN, Jr.: I would think not.

MR. PATTILLO: Did they have anything to do with the establishment and financing of Trans Mountain?

MR. BROWN, Jr.: With your permission I will answer your question by taking a minute to suggest that there were independents who were competing with Trans Mountain in the diesire to build a pipeline to the West Coast.

MR. PATTILLO: You mean you were seeking to get an Act passed permitting you to ---

MR. BROWN, Jr.: No, an Act had been passed incorporating a company. We were seeking to obtain the necessary throughput contracts which would make possible the financing of a pipeline to the West Coast.

MR. PATTILLO: Throughput in the United States?

MR. BROWN, Jr.: Throughput in Canada essentially. There were discussions relative to American companies, but the emphasis was on the Canadian companies.

MR. PATTILLO: And what Canadian companies would there at that time be who were approached by the independents of whom you, apparently, were one?

MR. BROWN, Jr.: There were discussions, I think, sir, with the major companies concerned in the Vancouver area, concerned to the extent of having refineries there and the Imperial.

MR. PATTILLO: And the Imperial Standard of California through its subsidiary in B.A. Oil?

MR. BROWN, Jr.: And I can't remember whether Shell had a small refinery or not.

MR. PATTILLO: Now, following the construction of the Trans Mountain pipeline in 1953 when you had the two pipelines in existence, has your company ever sought to make a long-term contract either by itself or with the group companies with any refinery on the other end of the line?

MR. BROWN, Jr.: May I consult Mr. McDermid for a moment, sir? Essentially, sir, the contracts which my company has are short-term contracts with the possible exception of life of well contracts in the Turner Valley field.

MR. PATTILLO: I am speaking of contracts with refiners who have taken off Trans Mountain or Interprovincial line. Have you sought to make contracts with them?

MR. BROWN, Jr.: On a long-term basis, no, sir, we have not.

MR. PATTILLO: Now, in connection with Trans Mountain, there has been a substantial drop in the amount of oil that has been going through that

line. Since that has occurred has anybody on behalf of your company sought to make any arrangement with any of the refiners on the west coast of the United States, either short-term or long-term, to ship supplies to them?

MR. BROWN, Jr.: No, sir.

MR. PATTILLO: Have you or anybody on behalf of your company approached the Trans Mountain officers or directors to see what was being done by any of them to increase the throughput on the line?

MR. BROWN, Jr.: No, sir.

MR. PATTILLO: To your knowledge has any producer in Alberta made any attempt to increase the throughput over the Trans Mountain line to the United States and the West Coast?

MR. BROWN, Jr.: Not that I know of, sir.

MR. PATTILLO: Would it be correct to say that the policy that is being followed by the producing companies, the independent producing companies, is simply sitting back and selling the oil that is requested?

MR. BROWN, Jr.: Essentially I feel that the independents are in the position that they participate in selling oil that is requested. However, I think I should add this, that the United States import policy with respect to the West Coast put a ceiling on the amount of oil that could be shipped in from Alberta to that area or from Canada, which

is, if my memory is correct, 64,000 barrels per day, which this month we are sending approximately 28,000.

MR. PATTILLO: Isn't the ceiling the one that restricts the total number of imports regardless of the source, and if they saw fit, if the price and everything else was right, they could take all of their allowable imports from Canada?

MR. BROWN, Jr.: That is correct, sir.

MR. PATTILLO: And am I correct in thinking that ever since the import has been put in, even if you were looking at it as solely a restriction from the source, there hasn't been a bid for anything like the amount that is permitted to go in from Canada?

MR. BROWN, Jr.: That is correct, sir.

MR. PATTILLO: Have you made any inquiries, assuming that Trans Mountain could operate its line to capacity, as to what it would cost, allowing for a fair rate of return, to ship oil to the Canadian border?

MR. BROWN, Jr.: Yes, sir, we have those figures, we have made those studies.

MR. PATTILLO: And did you find it was something over 20¢?

MR. BROWN, Jr.: That it would cost -- excuse me a moment. Our studies indicated a pipeline tariff of 25¢ per barrel with a throughput of 200,000 barrels per day.

MR. PATTILLO: And that would allow them a reasonable return on the investment?

MR. BROWN, Jr.: Yes, sir.

MR. PATTILLO: Am I correct in thinking that at the present pripeline price of oil in Alberta, if you could operate the line at capacity, the price that you could put oil into the western United States would be substantially below the present posted price of Venezuela oil laid down in that territory?

MR. BROWN, Jr.: It would be below, sir, in our opinion.

MR. PATTILLO: And would it also be below the price of Mid-East oil?

MR. BROWN, Jr.: Yes, sir. There are conditions, sir, that I think must be mentioned, whether you use a USMC minus 45 and minus 30.

MR. PATTILLO: Yes, I appreciate that, and I was going to ask you about that. When you use this phrase "USMC" you are talking about the tanker tariff rates published in the United States?

MR. BROWN, Jr.: Yes.

MR. PATTILLO: And when you say minus 35 or minus 45, that is the per cent return for long-term contracts or spot shipments?

MR. BROWN, Jr.: That is correct, sir.

MR. PATTILLO: Now, have you made any study to know how many of the tanker shipments that are going into the western United States are long-term and how many are spot shipments?

MR. BROWN, Jr.: I believe, sir, this is

covered in the Levy Report. If you give me a minute we may find a reference to it.

MR. PATTILLO: Yes. I must say that if there is, I have missed it.

MR. LEE: Would the Reporter repeat the question?

THE REPORTER: "Now, have you made any study to know how many of the tanker shipments that are going into the western United States are long-term and how many are spot shipments?"

MR. BROWN, Jr.: I am informed, sir, it is not in the Levy Report and therefore we have not made a specific study.

MR. PATTILLO: Have you made any inquiries as to how much it would cost to ship Alberta oil from Vancouver by tanker through the Panama Canal to Montreal or Portland?

MR. BROWN, Jr.: No, sir, we have not.

MR. PATTILLO: Have you made any inquiries to find out how much it would cost to ship by tanker from the Head of the Lakes to Montreal?

MR. BROWN, Jr.: Yes, sir, we have.

MR. PATTILLO: And what did you find that that would cost?

MR. BROWN, Jr.: I will have to produce those figures, sir; I haven't them in my mind at the moment.

MR. PATTILLO: Thank you. Do you know of any producer in the Province of Alberta who has made any attempt, in the last year, to sell any of his oil on either short-term or long-term contracts to refiners in California or in the State of Washington?

MR. BROWN, Jr.: I do not, sir, no.

MR. PATTILLO: Have you ever asked Standard Oil of California why they cut down the quantities they were taking from Trans Mountain Pipe Lines, when they were carrying on business in the Province of Alberta?

MR. BROWN, Jr.: I have not asked them the question, sir, no.

MR. PATTILLO: Have you made inquiries from anybody as to not only the source of the oil that is presently being imported into the State of California but whether it is owner-shipped oil?

MR. BROWN, Jr.: The specific answer to your question is "no". The purpose of the Levy Report was to obtain a professional opinion with respect to the West Coast marketing situation. We do not feel that the main factor is necessarily price in the type of oil which is used in any given market, and the point which I believe Walter Levy tried to establish in his report is that the singlemost important factor is the commercial preference of the user of the oil to use wholly-owned oil that he might have in Indonesia, Venezuela or the Middle East.

For example, I am informed that the Shell Oil Company are using their Anacortes refinery oil from the four corners of the United States; whether by substitution or otherwise I am not sure, but I can find that out for you.

MR. PATTILLO: I wish you would. What I was going to ask you, Mr. Brown, and developing from what you have just said: is prorationing in Alberta, where the owner-shipper cannot ship exclusively his own oil, in any way, in your opinion, accounting for the decided drop in the market for Alberta oil?

MR. BROWN, Jr.: I do not think it is a main factor, sir.

MR. PATTILLO: Do you think it would have anything to do with it?

MR. BROWN, Jr.: I would doubt it very much. The reserves of Alberta are so very small, to begin with, compared with those which have been developed in the Middle East and Venezuela that I could not imagine it would be a serious factor.

MR. PATTILLO: Now, let us move on to the Middle West. Have you, or anybody on behalf of your company, made any attempt, in the last three years, to enter into short-term or long-term contracts with the refiners in the Middle West area of the United States?

MR. BROWN, Jr.: No, sir.

MR. PATTILLO: Have you made any inquiries

as to whether or not they might be interested in entering into a contract?

MR. BROWN, Jr.: Not specific inquiries, sir. We have made an economic study of the area.

MR. PATTILLO: Do you know of any producer that has made any such inquiry?

MR. BROWN, Jr.: Not that I am aware of, sir.

MR. PATTILLO: Am I correct in thinking that it might be possible to put oil from Alberta into the Middle West market at prices below the prices posted in the Gulf and Texas?

MR. BROWN, Jr.: We believe there are compelling reasons which make us come to the conclusion that that is not possible.

MR. PATTILLO: Now, would you please tell me what those compelling reasons are?

MR. BROWN, Jr.: The primary one is that we enjoy for Canadian oil a local advantage in the Middle West in the St. Paul and Minneapolis area, where a refinery was established for the primary purpose of using Saskatchewan crude and where there was no ready access to domestic U. S. oil. If we move south from that area, we are confronted with the main stream of supply of oil within the United States economy. In other words, the area is well-serviced with large diameter pipelines, and the only way, currently, that we can penetrate that market, having in mind that we would have to pay duty on

our oil, would, in our opinion, come about only as a result of price reduction, which, in turn, would set off a chain reaction, in all probability, if the amount of oil was sizable.

MR. PATTILLO: Have you made any inquiries as to who owns and operates these refineries in the mid-west area?

MR. BROWN, Jr.: Specifically, I have not. Mr. Levy did that, sir, in his report.

MR. PATTILLO: And he will be able to give us that information?

MR. BROWN, Jr.: Yes, sir.

MR. PATTILLO: So you do not know whether they are integrated companies that have their own oil, which they can ship in there, regardless of the posted prices?

MR. BROWN, Jr.: I would think that that is a fair assumption to make, sir.

MR. PATTILLO: What I am getting at is this: Assuming you have a finding price for oil in the United States, an average of 20¢ more than the Canadian average finding price, and you have to bring your oil from the southern part of the United States up to the mid-west area as opposed to taking it from Alberta to the same area, I am puzzled as to why you would not be in a position to compete and, at least, make inquiries to find out why you could not.

MR. BROWN, Jr.: I think the first answer to your question is that there is a ceiling on the amount of oil that can be imported into that area. My memory is that, currently that ceiling is down to 64,000 or 68,000 barrels a day. Now, I do not think that price is always the deciding factor in the decision which is made with regard to what oil is going to be used in any given territory. The best illustration of that, I believe, is the United States oil import policy which, currently, is on a voluntary basis. If you carry the figures through further and take ½¢ a barrel finding cost in the Middle East, you get to ridiculous extremes. I think that, from the United States' point of view, they are determined, at some level, to protect their domestic industry.

One of the contentions we make in our brief is that we have reached, in Canada, a point where, in our judgment, we are operating at a level less than the average of producers in the United States, and it becomes a matter of protection in this country. Firstly, do we want a domestic oil industry? If we do want a domestic oil industry, then we should, in our judgment, again, support it at a level which protects necessary incentive to carry on.

MR. PATTILLO: I do not think anybody would disagree with you that we want a domestic oil industry and that we also would want to give it every help that we can; but I do think you would agree we have to

inquire to see what the facts are, to the best of our ability.

MR. BROWN, Jr.: Yes, sir.

MR. PATTILLO: One of the things which puzzles me, quite frankly, is that if you can put oil into Sarnia, at a competitive price, why cannot you put it into Detroit?

MR. BROWN, Jr.: I am quite sure, sir -- we have not a detailed study of it, but I am quite sure that we could, under different circumstances, reach both the Detroit and Toledo markets. Under current conditions there is no provision in the U. S. import policy to permit our Canadian oil into that area.

MR. PATTILLO: Don't they have the same provision as the West, that a certain number of barrels are permitted to be imported there; the source is not designated? Do you know whether that area is importing oil from any source?

MR. BROWN, Jr.: Would you give me a minute, sir? I might be able to answer your question.

MR. PATTILLO: Right.

MR. COMMISSIONER HOWLAND: Mr. Brown, is there not a tariff involved in those two circumstances?

MR. BROWN, Jr.: There is a tariff on any Canadian oil into the United States, sir.

MR. COMMISSIONER HOWLAND: Counsel was asking why, if you got to Sarnia, you could not get

to Detroit. Would that be a factor?

MR. BROWN, Jr.: The tariff would not necessarily prohibit it, sir.

MR. COMMISSIONER HOWLAND: But it could affect it?

MR. BROWN, Jr.: It could affect it, yes, sir.

Sir, I have the information with respect to Districts 1 to 4, which is all the United States except the northwest, but I have not got a breakdown by districts and I would be pleased to try to obtain that for you.

MR. PATTILLO: Thank you very much.

Now, have you any information, Mr. Brown, or have you made any inquiries as to the tankers that are coming to Portland or to Montreal with Venezuelan oil, whether they are working under long-term charters or whether there are some of them that are spot, and what percentage of each there is?

MR. BROWN, Jr.: I cannot give you percentages, sir. The studies that are incorporated in the Levy Report -- and, again, this is a question that he could much better answer -- would seem to indicate that there are very few spot charter arrangements.

MR. PATTILLO: Have you made any inquiries as to what proportion of the Venezuelan oil presently coming into Montreal markets is owner-shipped and,

when I say owner-shipped, I mean by the company that actually owns or from one of its associated or affiliated companies?

MR. BROWN, Jr.: We have endeavoured to get that precise information and have been unable to do so, sir.

MR. PATTILLO: Perhaps we will have better luck here.

MR. BROWN, Jr.: Yes, sir.

MR. PATTILLO: Do you know anything about the mid-west oil that is coming into the Montreal market and what percentage of it is owner-shipped, "owner-shipped" being defined in the same way?

MR. BROWN, Jr.: You mean Middle East oil?

MR. PATTILLO: Middle East oil.

MR. BROWN, Jr.: No, sir, I have not a precise answer.

MR. PATTILLO: Just before we adjourn, because I see it is just about adjournment time, I would like you to ponder over this question overnight and give me the answer in the morning: don't you think that the independent producer at the present time is confronted with the same problems in seeking to go into the Montreal market as he is in seeking to go into the United States mid-west market or the United States western coast market?

MR. BROWN, Jr.: I do not think so, sir; but, inasmuch as you said you would like the answer

tomorrow, I will prepare an answer.

THE DEPUTY CHAIRMAN: We will adjourn until tomorrow morning and please do not forget that it will be in the Palliser Hotel.

MR. PATTILLO: That is in the ballroom; as you come into the main door to the hotel, you turn to the right.

MR. BROWN, Jr.: And the time, sir?

MR. PATTILLO: Ten o'clock.

THE DEPUTY CHAIRMAN: Ten o'clock.

---Whereupon the hearing adjourned, at 4.25 p.m., until 10.00 a.m., Wednesday, April 30, 1958, in the Palliser Hotel, Calgary.

Mr Borden

ROYAL COMMISSION

ON

ENERGY

HEARINGS

HELD AT

CALGARY, ALTA.

VOLUME No.: 30

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ROYAL COMMISSION

ON

ENERGY

Hearings held at Calgary, commencing Tuesday, April 29, 1958, at 10.00 a.m.

PRESENT:

Mr. H. Borden, C.M.G., Q.C. -- Chairman

Mr. J.L. Levesque -- Member

Mr. G.E. Britnell -- Member

Dr. R.D. Howland -- Member

Mr. L.J. Ladner, Q.C. -- Member

Dr. R.M. Hardy -- Member

COMMISSION COUNSEL:

Mr. A.S. Pattillo, Q.C.

Mr. Miles H. Patterson.

Mr. J.F. Parkinson -- Secretary to the Commission.

Major N. Lafrance -- Assistant Secretary to the Commission.

APPEARANCES:

Representing Home Oil Company Limited and companies associated with it in the submission:

Mr. R.A Brown, Jr.	- President, Home Oil Company Limited.
Mr. Charles Lee	- President, Western Decalta Petroleum.
Mr. David R. Williams) Mr. Bartlett F. Crawford) Mr. Wilson N. Gilliat) Mr. Philip H. Dau)	- Dutton-Williams Brothers Limited.
Mr. Melvin H. Gertz	- Purvin & Gertz, Inc.
Mr. Allan Gordon	- President, Royal Securities Corporation Limited.
Mr. Paul Clark	- Lehman Brothers
Mr. N.D. McDermid, Q.C.) Mr. J.R. McColough	- Counsel

- - - - -

APPEARANCES:

Representing Interprovincial Pipe Line Company:

Mr. T.S. Johnston	- President
Mr. R.H. Clute	- Chief Engineer
Mr. D.L. Mathieson	- Solicitor
Mr. H. Lem Stevens Guille	- Western Division Manager
Mr. D.G. Waldon	- Treasurer
Mr. F.E. Warterfield	- President, Pipe Line Consultants, Houston, Texas.
Mr. J.H. Ratcliffe	- President, McLeod, Young, Weir & Co. Ltd., Toronto

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EXHIBITS

- - - -

Wednesday,
April 30, 1958

---On resuming at 10.00 a.m.

---The Chairman was not present.

---Mr. Commissioner Ladner was not present.

---Mr. Commissioner Levesque was in the chair.

THE DEPUTY CHAIRMAN: Gentlemen, we will now resume our hearing. We will probably have the pleasure of having the Chairman, Mr. Borden, with us at 11.00 or 11.15. Mr. Pattillo?

MR. PATTILLO: Did any of you gentlemen have the opportunity to get the answers to any of the questions which I asked yesterday and which remained unanswered?

MR. McDERMID: In connection with the questions you asked about the separate companies, we did get out a questionaire which I gave Mr. Patterson and we propose to circulate that questionaire among all the companies represented in this presentation and have asked if we covered all the questions you asked. There were two other questions you asked Mr. Brown.

MR. PATTILLO: Before we start the day's proceedings, would you give the answers to those questions now?

MR. BROWN, Jr.: Yes. Last evening before we adjourned, you asked me this question, namely: "Don't you think the independent producer at the present time is confronted with the same problem in seeking to go into the Montreal market as he is in seeking to go into the United States mid-west market or the United States western coast market?" I replied, "I do not think so." With your permission, sir, I would like to give you my views on this subject: I think the problems of selling oil in Montreal and the U.S.A. are identical with reference to commercial preference of the purchasing company. There is, however, one extremely important difference and that relates to the national interest of Canada and government policy. Canada can make decisions as to using its own oil supplies without depending upon a third party or another country. Even if we get a U.S. market, we can never be sure that it is a secure market, whereas we can be sure of Canadian markets.

MR. PATTILLO: Before I ask you further questions along that subject, would you deal with the other question that you have that remains unanswered?

MR. BROWN, Jr.: In your course of questioning you asked me if Home Oil, or any of the companies that I represent, had made any effort to try and sell additional quantities of oil to the refiners in the

Pacific Northwest, the Middle West or Detroit or Toledo.

In order to answer this question I believe it is necessary to put on the record a definition of the mechanics involved in selling a barrel of oil in Alberta.

Crude oil is produced in the Province of Alberta under regulations contained in the Oil and Gas Conservation Act and the manner of determining the monthly provincial allowable is set forth in Part 4, Section 36 of the Act.

Crude oil contracts are made by producers with crude oil purchasing companies, generally refining companies. These contracts are usually made with a thirty-day cancellation clause.

The refiners who wish to obtain Alberta crude nominate for oil at monthly hearings held by the Oil and Gas Conservation Board. This total oil nomination is then divided among the pools in the Province in the form of a pool allowable. Generally speaking, with the possible exception of major quality differential problems, each well in the Province then gets its share of the pool allowable.

A producer is not allowed to sell to a refiner any oil over and above the allowable granted to his wells.

MR. PATTILLO: Do you agree with me that policy amounts to simply this: that the whole

selling initiative of the producer has been taken away and removed.

MR. BROWN, Jr.: I do not think so at all, sir, otherwise we would not be endeavouring to reach the Montreal market.

MR. PATTILLO: Let me put it this way: up to the present time, except for this recent campaign to go into the Montreal market, what has any Alberta producer of oil done since the pro-rationing came into the Province of Alberta that is pushing the sale of oil?

MR. BROWN, Jr.: Sir, I think your question should be answered in two parts: A major chore of work with respect to finding a market for Alberta oil has been undertaken by the Imperial Oil Company. As far as the independent producers are concerned, I do not think there has been, other than the one effort with respect to putting a pipeline to the Pacific Coast, that there has been any specific effort made to extend markets that I know of.

MR. PATTILLO: Coming to the Montreal market, if the refiners that are now carrying on business in the Montreal area did take Canadian crude rather than the crude which they are now using, would that, in your opinion, result in a financial loss to any one of them?

MR. BROWN, Jr.: In my opinion, it would not, sir.

MR. PATTILLO: Would it result in a financial loss to any of their associated companies?

MR. BROWN, Jr.: That, sir, I would not have an opinion on. May I expand the answer to the first question to this extent: our presentation has always been intended and has stated that Canadian oil would have to reach the Montreal market on a competitive basis and, therefore, at the same prices for the same quality of oil so I do not see where any refinery could sustain a financial loss.

MR. PATTILLO: Would there be any capital expenditure involved in adjusting the refineries to use the Canadian crude as opposed to the present crudes?

MR. BROWN, Jr.: The study which we gave with respect to the use of Canadian oil and the Montreal refineries did not indicate any major requirement for changing refineries. However, I think each refinery would have to answer that question for itself. Our opinion did not, in any case, involve a major outlay.

MR. PATTILLO: If you move Canadian crude into Montreal, as you contemplate, without any government assistance in the form of a quota or embargo and if what Mr. Levy says in his report as to the advantage of owner-shipper oil is correct, do you not think that in no time at all crude oil would be flowing into the Maritime refineries and reach the Montreal market under that at which Canadian crude

would possibly be refined at.

MR. BROWN, Jr.: In answering that question, sir, I think that, as I have stated today either directly or implied, in my judgment a quota would be necessary and in that event I do not think that the problem exists.

MR. PATTILLO: At the present time the Imperial Oil Company has a refinery in Halifax with a capacity of 35,000 barrels a day and Irving Oil Company is in the process of completing one in New Brunswick which will have, I think, a larger capacity, from what I have read. Now, if you put quotas on foreign oil going into Montreal and your pipeline, and your pipeline only, went as far as Montreal you certainly would not be able to put quotas on foreign oil going into the Maritimes.

MR. BROWN, Jr.: Certainly, put on a different quota.

MR. PATTILLO: If you put a quota on the oil going into the Maritimes, would you not, in short order, be requiring the Maritime consumer to be paying much more for his oil than he now is?

MR. BROWN, Jr.: The quota in the Maritime should be such as to supply the capacity of the refineries. I think what you are thinking is that the refineries would double their capacity because of the foreign crude and you are making the assumption that foreign crude could be bought at a much cheaper

price. We are not suggesting at any time the Maritime refineries be affected.

The other answer is, you put a ceiling on the amount of produce going into the Montreal markets whether from the United States by tanker shipment or from foreign countries and, if necessary, include the Maritime provinces.

MR. PATTILLO: At the present time the Irving Oil Company is already putting its products into the Province of Quebec.

MR. BROWN, Jr.: I said put a ceiling, not a limitation, not a restriction to prevent any market from being served.

MR. PATTILLO: What I have difficulty in understanding is the difference between a ceiling and a limitation; do they not amount to the same thing?

MR. BROWN, Jr.: Probably they do, sir, yes.

MR. PATTILLO: Now, in investigating this Montreal market, have you given any consideration to what it would cost to complete an extension from the present Interprovincial Pipe Line at some point on its route into Montreal.

MR. BROWN, Jr.: The Interprovincial, I understand,sir, have presented a brief in which they have dealt with that subject. We have certainly looked at it.

MR. PATTILLO: What did you find out in your looking at it from this point of view: first of all,

would you be able to get the oil to Montreal quicker if you had an extension put on the Interprovincial pipeline rather than build this entire new line?

MR. BROWN, Jr.: We would be able to get some oil to Montreal quicker but we are of the opinion that it would be more costly to transport oil through an expanded Interprovincial system than would be the case with a new large diameter line running from Western Canada to Montreal.

MR. PATTILLO: Have you given any consideration to the location of the present Interprovincial pipeline in the vicinity of Port Credit in relation to the products line bringing products from Montreal to Toronto.

MR. BROWN, Jr.: Yes, sir.

MR. PATTILLO: What did you find was the distance in miles between those two lines?

MR. BROWN, Jr.: Approximately 300 miles, sir.

MR. PATTILLO: 300 miles is the closest line from Port Credit Interprovincial pipeline and the products pipeline running from the products pipeline to Toronto.

MR. BROWN, Jr.: I am sorry, sir, I thought you said the distance from Port Credit.

MR. PATTILLO: Oh, no, I know that distance. I was wondering if you did any search.

You do know there is a products pipeline running from Montreal to Toronto from which, I understand, approximately 60,000 barrels are delivered every day?

MR. BROWN, Jr.: I know the line, sir.

MR. PATTILLO: I was wondering if you inquired into the distance between the two lines; the probable cost of connecting the two and the feasibility of connecting the two so that you would be running crude over the present products pipeline into Montreal.

MR. BROWN, Jr.: I think the distance from Port Credit to tie into the line is not of any significance; it is just a question of cost.

MR. PATTILLO: In other words, you have not really looked at that matter at all?

MR. BROWN, Jr.: Not in detail, sir.

MR. PATTILLO: If the Montreal line as projected by you and these other companies in this brief, was or did become a reality, am I correct in thinking that the earliest date it could become a reality would be at the end of 1959?

MR. BROWN, Jr.: Yes, sir, it is doubtful if -- depending on when the decision was made -- if construction could commence this season, it could be done by the end of 1959, otherwise, it would be into 1960.

MR. PATTILLO: But the problem that the producers are presently facing is one that first developed last July and is on them right now; is that correct?

MR. BROWN, Jr.: That is correct, sir.

MR. PATTILLO: Now, in trying to look for a solution of the problem of the producer, did you or your associate companies or those who are associated with you in this brief, at any time give any thought to approaching the refining companies who are operating in the Montreal area and saying, in effect, to them, "We have more oil than we know what to do with and our allowables are down; we have got to increase our sales and we will be pressing to have an oil pipeline to Montreal and will keep pressing for one unless you people give some immediate help to us in placing our oil in the mid-west of the United States or on the western coast." Have you ever approached the problem from that point of view?

MR. BROWN, Jr.: We have approached it, sir, from the Montreal project point of view in this manner: we feel, after having completed our other studies, that the cost of transporting oil through Interprovincial plus a relatively small amount of market you would obtain by reversing the flow of products line and costs related to transporting through the products line, it was not in range with what could be done by building a completely new line and transporting several times as much oil even if we have to wait an extra year to do it.

MR. PATTILLO: That isn't really what I was driving at at all, Mr. Brown. At the present time Trans Mountain has a line with a capacity of more than 200,000 barrels per day and it is only shipping in the vicinity of 100,000 barrels per day, isn't it?

MR. BROWN, Jr.: I understand that is so, yes.

MR. PATTILLO: And Interprovincial line is not being used at the present time to capacity either, is it?

MR. BROWN, Jr.: It has some extra capacity, sir.

MR. PATTILLO: What I was suggesting - has any thought been given to approaching the refiners in Montreal, who you say are presently acquiring crude from their associated companies in foreign markets, and saying to them, if you are going to continue to do this to the detriment of we producers in Alberta you will have to get your associated companies in the United States and the refineries to increase the quantities they are taking so that we will be able to fill the Trans Mountain line to capacity and the Interprovincial to capacity? Have you made any such approach as that?

MR. BROWN, Jr.: Yes, in the theory of it, sir, but you have an import quota in the Pacific West Coast of 64,000 barrels per day, and if, in addition, you had all of the 64, 000 barrels per day,

you wouldn't take more than Trans Mountain to full capacity with 200,000.

MR. PATTILLO: As I understand in the evidence that Trans Mountain gave, the import quotas for the West Coast are considerably more than 64,000 barrels per day and that they are more than the amount you can ship if you had the line to full capacity.

MR. BROWN, Jr.: Sir, I don't appear to have our report with me with regard to District 5. My understanding was that there was a quota of 64,000 available Canadian oil in District 5.

MR. PATTILLO: That is not the understanding I had received from Trans Mountain, but I wish you would look into that. But let me put it like this. As I understand it, in your opinion, because of the drop in Alberta sales of crude, there is an immediate problem confronting the producers of oil in Alberta.

MR. BROWN, Jr.: Right.

MR. PATTILLO: Now, then, we are looking for the solution to that problem, if there is a solution. You offer as one of the solutions a pipeline to Montreal. You agree with me that at the very earliest that line could not be in operation until the end of 1959. Now, I am putting it to you, have you considered whether that is the best solution for the producers in Alberta and have you considered any

other solution?

MR. BROWN, Jr.: Yes, sir. I think Mr. Lee pointed out in his report that the most logical, most economical market available to Canadian oil was that of Pacific Northwest and California. Now, our concern about that market at the present time is that we believe, in the light of the experiences of recent months, that it is now and will continue to be an insecure market because of United States import policy because of potential development of oil reserves in Alaska. We feel that it is equally economic in the light of our pipeline studies to go into Montreal which could be made a secure market.

MR. PATTILLO: Mr. Brown, on the preliminary figures of Dutton-Williams, this pipeline to Montreal is going to cost at least 400 million dollars. Now, would you agree with me that if you can find a solution which would be immmediate and would not require any further expenditure of money, it would be preferable?

MR. BROWN, Jr.: Yes, sir, I agree with that, if it were also permanent, or reasonably permanent.

MR. PATTILLO: If it were reasonably permanent?

MR. BROWN, Jr.: Yes.

MR. PATTILLO: Now, do you agree that if you got the refiners on the Pacific Coast taking

crude, Canadian crude, and adjusting their refineries for that, so long as the price was competitive it would be probably that you would be able to continue to hold the market?

MR. BROWN, Jr.: Now, sir, I would not agree with that.

MR. PATTILLO: Would you agree that you could probably hold the market if you continually had the threat over the associated companies that if you didn't hold it you would fill the pipeline to Montreal?

MR. BROWN, Jr.: Are we not in that position at the moment?

MR. PATTILLO: That is just exactly what I want to find out. Is that the position we are in?

MR. BROWN, Jr.: I don't think so.

MR.PATTILLO: Are you in effect saying to these people that if you don't find us markets we are going to build to Montreal?

MR. BROWN, Jr.: There is one addition to that. We are not certain our markets can be confined to the Pacific Northwest and California and our best action would be to supply all our Canadian markets with Canadian oil.

MR. PATTILLO: I understand that Shell in California has a daily capacity of 165,000 barrels and it has a refinery in the State of Washington and Puget Sound area - I have forgotten what the capacity

is of that; I think it is in the vicinity of 50,000 barrels. Have you or anybody made any approach to Shell as an operator of a refinery in the Montreal area with a capacity of 60,000 barrels and said to it, if you don't give us some business in the California refinery of your associated company, we are certainly coming in here to Montreal and we are going to ask the government to force you to take it?

MR. BROWN, Jr.: I have not had such a discussion.

MR. PATTILLO: Now, Standard of California has a large refinery in the California market with a capacity, I think, almost as great as that of Shell, and they have another large refinery in the Puget Sound area and they are carrying on business right here in the Province of Alberta in the producing field and they are also, through a subsidiary, carrying on business in British Columbia. Have you ever approached that company and said, "that we considered that this was it; if you think this oil is not enough, to come in and help us to sell the oil"?

MR. BROWN, Jr.: I have not personally approached Shell on the subject. I have made speeches on the subject, and I am interested in recalling that California Standard, one of their officers, published a paper favouring the Montreal market more than a year ago.

MR. PATTILLO: It would certainly take you off his back if they did that, wouldn't it? What I am puzzled about is this. As you explained it yesterday, the price to be paid to the Canadian producer by the Montreal refiner for Canadian crude would be based on the price at Sarnia which is in turn based on the mid-continent price in the United States and there would merely be the cost of transportation deducted, and that is how the thing would be worked; is that correct?

MR. BROWN, Jr.: I believe that is a fair statement, yes.

MR. PATTILLO: Now, Mr. Brown, would you tell me, if you are going to develop a national oil policy and make Canada self-sufficient in oil and put on embargoes so that no foreign oil can come into the country or only limited quantities can come in, why should any attention be paid to what the price of oil is in any other country? Why shouldn't it be based on your cost of finding and developing and lifting plus a reasonable market?

MR. BROWN, Jr.: That is a question, sir, that I think a much more experienced person than I can answer. I would recommend that we put a question of that sort to Walter Levy.

MR. PATTILLO: Now, do you envisage in your Montreal scheme not only a quota on crude or an embargo on crude but a quota on products?

MR. BROWN, Jr.: Yes, sir.

MR. PATTILLO: Now, what sort of quota do you envisage? - a flexible one, related to a percentage of the market, or what?

MR. BROWN, Jr.: The basic requirements in our suggested solution to get a pipeline into Montreal require minimum oil of 200,000 barrels per day in 1960 and building up to something more than 300,000 barrels a day in 1965, and that suggests about 80% of the total market which is supplied by crude oil from Montreal refiners at the present time. Now, that assumes that the same amount of products would be coming in in 1960 as would normally be coming in. I think our attention should be directed to increasing the amount of markets than can be supplied by Canadian oil and reducing product import as we go along, and that therefore suggests the necessity of flexible arrangement with certain minimums.

MR. PATTILLO: Well, what I am getting at now is: as I understand it now, the price that the Canadian consumer needs to have to pay for the finished product is largely governed by the cost of importation from another country. Is that correct?

MR. BROWN, Jr.: I believe that is correct, sir.

MR. PATTILLO: If you limit the quantity of other products that you can bring in, then do you not remove that safeguard so far as the Canadian consumer is concerned, and the inevitable result will be that the Canadian consumer is going to have to pay more for the products?

MR. BROWN, Jr.: I would suggest the opposite. The Canadian consumer would be inclined to get his product for less money. As matters stand now, there is a tax on product import into Montreal of 18% and the price of the product in the area, as I understand it, is based on product import. The crude oil goes into Montreal duty free. If we put Alberta oil into the Montreal market at a price such that it is competitive with duty free foreign oil, my quick opinion would be that the product price to the consumer would be less, rather than more.

MR. PATTILLO: Well, it has been my experience that whenever you have not got some competition or threat of competition that everybody "buys for the leastest" and "sells for the mostest".

MR. BROWN, Jr.: In the philosophy of it, I think I agree with you, sir. I think competition is a good thing. I do not suggest elimination of imports but a ceiling on them and the gradual reduction of product import; at no time the elimination of it.

MR. PATTILLO: Now, have you read the speeches made at the annual meeting and, I think, somewhere else, of Mr. Harold Gray, the president of Canadian Oil, when he was offering a solution to the present lack of markets for Canadian crude?

MR. BROWN, Jr.: I read the newspaper accounts, sir, and I think, generally, I have an impression of what he was suggesting.

MR. PATTILLO: As I understand it, what he was saying was that you had to build up refineries along the lines that existed and gradually spread out your markets, something like a glacier would gradually spread out. Is that right?

MR. BROWN, Jr.: My interpretation of what he said might be a bit different than that, but I will accept that.

MR. PATTILLO: Have you given any thought to that, Mr. Brown, as to whether that might offer a solution just as quickly as the proposed pipeline to Montreal?

MR. BROWN, Jr.: Yes, I certainly have given thought to it, sir, and I do not think it

offers any solution of importance at all in the short run, say, in the next 5 years.

MR. PATTILLO: Have you and your associated producer companies who are not in the integrated business given any consideration to yourselves going into the integrated business and building additional refineries in the vicinity of the Interprovincial Pipeline or the Trans Mountain line?

MR. BROWN, Jr.: I can only speak for Home Oil, sir, and we certainly have not at any time -- at least, we have considered it and at no time are we interested in becoming refiners.

MR. PATTILLO: Mr. Brown, from your experience in the oil business, do you think that the pro rationing policy in existence in the State of Texas in the United States has any effect whatever on the world price of oil?

MR. BROWN, Jr.: I do not feel that I am competent to answer the question, sir.

MR. PATTILLO: Have you anybody in your group ---

MR. BROWN, Jr.: I would think Mr. Levy would be prepared to express an opinion.

MR. PATTILLO: From your experience as a producer, what do you say is the maximum pay-out time that a company can afford to operate under and get efficient results?

MR. BROWN, Jr.: I am sure, sir, that that

differs with every company. I think we all have different opinions with respect to it.

I think that is a factor when we are going to auctions, why some people buy land and other people don't. We relate their opinion with respect to pay-out and how long they can keep their money tied up. If you desire me to answer the question from Home Oil, I will be glad to do so privately, I would be glad to do it that way, because I think that is a factor in making decisions with respect to auction.

MR. PATTILLO: Now, Mr. Brown, I am going to ask this question. If you consider it unfair, you need not answer it.

Of this group of companies that are here with you, would you agree that, other than your company, Home Oil, all of these companies had come into being, insofar as Canada is concerned, since the Leduc discovery in 1947?

MR. BROWN, Jr.: I think there are more exceptions, sir. Okalta, I remember, back in the early days of the Turner Valley development. In fact, if I guess it correctly, it would go back to prior to 1920, probably 1915 or 1914.

I think the majority are related to the recent oil development since Leduc in 1947.

MR. PATTILLO: Now, this is my question: can you tell me anything, from your knowledge, that any of these companies have done to contribute to the

marketing of Canadian crude in Canada?

MR. BROWN, Jr.: I do not have enough personal knowledge of their operations, sir, to express an opinion.

MR. PATTILLO: If the pipeline was built to Montreal and Canadian crude reached Montreal, would you agree that that would be done on a nationalistic policy rather than on an economic policy?

MR. BROWN, Jr.: No, sir. I think that should be done in the most economic manner possible. We feel, in presenting the concept of a pipeline to Montreal, that we are offering an industry solution, and I feel that any pipeline built should have, as its backers, preferably all the members of the industry or as many as possible of the members of the industry.

MR. PATTILLO: Well, it cannot be done on an economic basis or you would not need an embargo or a quota system, would you?

MR. BROWN, Jr.: I think, sir, that we have tried to demonstrate that the quota system is related to the commercial preferences of the purchasing companies. I do not think that price is even necessarily a factor in the position with respect to what oil is used in any given refinery.

MR. PATTILLO: Is it your considered opinion that these companies that are operating in Montreal today are using foreign crude rather than Canadian crude solely because they prefer it?

MR. BROWN, Jr.: May I answer your question this way, sir: when we found ourselves in the straits that we did, more than a year ago, with regard to marketing Canadian oil, I think many of us for the first time took a really serious look at what could be done to market Canadian oil.

I certainly do not wish to suggest that this group of companies I represent are the only ones in the industry who have been working on this problem. I think that many of us now feel that what was not considered to be economic because of lack of knowledge, lack of study, we now find that it is economic, and I do not think we can deal with the past in dealing with our present problem. I think we must look at what we have learned, a great deal of which I would imagine came about as a result of the appearance of the Borden Royal Commission.

MR. PATTILLO: Well, Mr. Brown, really, though, is there anything unusual about this problem confronting the oil producer in Calgary today? Is it not the same problem that is confronting the coal operator, that he cannot enter certain markets because of transportation on an economic level with companies in the United States, who have their coal much closer to the market?

MR. BROWN, Jr.: Right, except that that is not our opinion of the case of the Western producer. We can reach the Montreal market in competition with

foreign oil. We want to assure ourselves that the oil of Western Canada will be used on a competitive basis with foreign imported oil.

MR. PATTILLO: My problem is that if that is so, why do you need an embargo or a quota?

MR. BROWN' Jr.: I have endeavoured to answer the question, sir. If we could get long-term, firm contracts with a minimum of 200,000 barrels a day, graduating upwards to 300,000 barrels a day in the year 1965, we would not need the quota; we would have a project which would be financable. If this could be done on a proper basis, we would not need it.

MR. PATTILLO: Would the producers of Alberta be willing to enter into such a long-term contract binding their products, in your opinion, to that time?

MR. BROWN, Jr.: My opinion is that they would, sir, yes.

MR. PATTILLO: Your company would be prepared to do so?

MR. BROWN, Jr.: Yes, sir.

MR. PATTILLO: One of the arguments that you have put in support of this thing is that it would reduce the trade deficit to Canada. Would it not also probably greatly impair trade between Canada and Venezuela and between Canada and the sterling block?

MR. BROWN, Jr.: I am not exactly sure, sir,

whether we put the words in there, "our U.S. dollar trade deficit". If we did not, it was intended to be that way. Therefore, all that we are concerned with in that regard is that Venezuelan oil being paid for in U.S. dollars. With regard to Venezuela, I think that our trade there in the year 1957 amounted to approximately $37 million and their trade with us in excess of $200 million. We are not suggesting taking 100 per cent of the market. If one assumes that, in the remaining 20 to 30 per cent, Venezuela would still participate, there would still be more than enough left to cover the $37 million of sales which we make to them.

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MR. PATTILLO: Mr. Brown, have you given any thought to this: that is, if you were successful in having the refiners in Montreal volunteer to take Canadian crude on a quota system or on embargo, that their associates in the United States who are presently buying Canadian crude might retaliate and discontinue buying and that the net end result would not be very many barrels per day.

MR. BROWN, Jr.: I have considered that, sir, and I have a conviction that international oil companies to the best of their abilities desire to operate in a manner which is in the best interests of the company and of the country in which they are operating. It is conceivable, as you suggest, there could be retaliation but, in my opinion, it is not a factor to be considered.

MR. PATTILLO: Mr. Brown, you have just said something that has me completely puzzled. If the refiners, in your opinion, operate in the best interests of Canada, is it not possible that they could assist in coming up with some other solution that would be speedier and just as effective and less costly?

MR. BROWN, Jr.: It might well be that they could. We have investigated all the possibilities and we do not think that they can. We think the only secure market for our Canadian oil is the Montreal market.

MR. PATTILLO: The other thing that gives me concern: supposing we put in the Montreal market now and you had an immediate outlet starting in 1960 of 200,000 barrels a day, do you not think the minute you commenced completing the line and had the long-term contracts, you would have the same fillip to exploration and development in Alberta that you have had in the past, and by the time the line was complete you would have the same problem that you have today?

MR. BROWN, Jr.: I would be delighted if we were that successful in Alberta today.

MR. PATTILLO: You do not think the problem would have the same magnitude?

MR. BROWN, Jr.: Not in a 2-year period. I think that we are always under pressure as we develop reserves and producibility to find markets. I do not suggest in any way the Montreal market is an all-time answer to our problem. It certainly would give us a boost in the position we are now in, and would permit us to participate in the expansion of one of the large and most populated areas in Canada, as we are now doing in the Toronto area.

MR. PATTILLO: Mr. Levy makes it very clear in his report, as far as he can see, Canada does not offer a sufficient market even if you include the Montreal market for the production which he anticipates is going to occur in Alberta, and we have got to get export. That is what is bothering me.

If we develop the national policy, such as you are suggesting, if it is not timed properly but is pushed ahead, may not that speed affect the export market which we are some day going to be dependent upon?

MR. BROWN, Jr.: Not in my opinion, sir.

MR. PATTILLO: Now, I would like to ask some questions, if I may, regarding this proposed line, and I assume you would want to have the Dutton-Williams people with you?

MR. BROWN, Jr.: Yes, may I have Mr. Williams?

MR. PATTILLO: Mr. Williams, how long have you been in the pipeline-building business?

MR. WILLIAMS: Since I was 17 years old.

MR. PATTILLO: As I do not know how old you are, how long is that?

MR. WILLIAMS: That makes 20 years, sir.

MR. PATTILLO: Have you had experience in building pipelines in Canada?

MR. WILLIAMS: Yes, sir, quite a bit.

MR. PATTILLO: And you built part of the Interprovincial and Trans Mountain lines?

MR. WILLIAMS: We did some of the original Interprovincial construction and some of the Trans Mountain construction, but not a major portion of Trans Mountain.

MR. PATTILLO: Have you done some of Trans-

Canada?

MR. WILLIAMS: We have done a considerable portion of the construction of Trans-Canada consisting of four sections, one of which is incomplete.

MR. PATTILLO: In making a preliminary survey of this proposed line, first let us get this clear: would you agree with me without an actual survey on the ground the most you can do is make a preliminary survey and your figures may be very definitely out?

MR. WILLIAMS: I would not think, in the light of the rather extensive experience with the terrain throughout, and because of previous investigations and considerable knowledge of the country, that there would be much room for error in the construction estimates, and we have, of course, made very accurate estimates of the materials.

MR. PATTILLO: What would you say would be the margin of error?

MR. WILLIAMS: The margin of error is accounted for in a contingency factor in our report.

MR. PATTILLO: I know the contractors love this.

MR. WILLIAMS: However, this is stated rather plainly in terms of 5 per cent of the construction costs. The accuracy of the estimate -- it is prepared in the same manner in which we would be

prepared to bid on a firm price.

MR. PATTILLO: How much do you figure -- let us assume it is a northern, what I call the all-Canadian, the national route; how much per mile would it cost, in your opinion, to complete that line?

MR. WILLIAMS: The average per mile?

MR. PATTILLO: Yes.

MR. WILLIAMS: Do you wish the materials included?

MR. PATTILLO: Yes. I got some figures from Trans Mountain as to their average cost per mile in the 102-mile extension they built last year, and I would be anxious to compare those figures with what you are going to give.

MR. WILLIAMS: I understand.

MR. PATTILLO: Mr. Williams, the Chairman has just called my attention to the fact that Mr. Borden wants to come down and join us, and we want to break sharp on time; would you mind if we break now?

MR. WILLIAMS: No, certainly not.

THE DEPUTY CHAIRMAN: We will adjourn now and we will be back at fifteen minutes after 11.00.

---A short recess.

---Mr. Borden took the Chair at 11.30 a.m.

THE CHAIRMAN: Gentlemen, the Commission will now resume its hearings.

Mr. Pattillo?

MR. FRAWLEY: Mr. Chairman, may I say what I am sure everybody is thinking, and that is how very, very pleased we are that you are back in the Chair and that you will stay with us without any further interruptions.

THE CHAIRMAN: Thank you very much, Mr. Frawley. It is purely a temporary incapacity.

Mr. Pattillo?

MR. PATTILLO: Thank you, Mr. Chairman. Just before the recess I had commenced talking to Mr. Williams who is the engineer who has projected some figures as to this proposed pipeline.

Mr. Williams, you were going to look up for me what you considered was the cost per mile for the northern route.

MR. WILLIAMS: The cost per mile for the northern route is $158,900., including the contingent of construction factor that I already mentioned and also includes the cost of easements and engineering and all overhead and all costs incident to the construction of the main line.

MR. PATTILLO: And what is the cost per mile of the southern route?

MR. WILLIAMS: The cost per mile of the southern route was $140,110.

MR. PATTILLO: Now, would this cost that you have given us cover land acquisition costs?

MR. WILLIAMS: Yes, sir, they do.

MR. PATTILLO: And the construction of the 30-inch pipeline- what right-of-way? Is it a 60-foot right-of-way?

MR. WILLIAMS: It would be a 60-foot right-of-way.

MR. PATTILLO: And the line would be put down - what cover would you have over the top of the line?

MR. WILLIAMS: The line would have 30 inches of cover.

MR. PATTILLO: And is that adequate cover in the northern section of Ontario?

MR. WILLIAMS: We believe that that is adequate cover.

MR. PATTILLO: Does that contemplate acquiring the steel and the pipe in Canada or in the United States or where?

MR. WILLIAMS: The steel would be acquired in Canada to the extent of the capacity of the Canadian mills. In view of the time schedule which we have anticipated for an immediate program, there would be a need for certain imports of steel from the United States and Great Britain.

MR. PATTILLO: When you talk about an immediate program, when do you contemplate construction would start?

MR. WILLIAMS: We were asked to contemplate an immediate start of construction in order to take advantage of the immediate need of the pipeline.

MR. PATTILLO: You mean within the next matter of weeks?

MR. WILLIAMS: We were asked to consider a go-ahead of plans for construction in a matter of weeks.

MR. PATTILLO: How long do you estimate from the date of commencement of construction it would take to build this line?

MR. WILLIAMS: If plans we permitted to commence as I have mentioned, the construction could be completed by the fall of 1959.

MR. PATTILLO: I understand that, but what I am trying to get at is, I think it is not very feasible to consider commencement in a matter of weeks. I am trying to find out how long it would take you from the date you commenced until you finished a line of this magnitude.

MR. WILLIAMS: I was not considering that we would be able to break ground in several weeks, I merely meant that plans must be permitted to proceed. The breaking of ground could not be possible until

mid-summer.

MR. PATTILLO: First of all, supposing you were given the go-ahead in three weeks, could you possibly have your surveys, your plans or the approval of route and all the other things, your expropriations in order to get on the land, all accomplished before the middle of the summer?

MR. WILLIAMS: We had experience of this and we have had some of the late starts of pipeline construction in Canada, and we believe it would permit a start in the middle of this coming summer, and that there would be a shortened season this year which would have to be accelerated in the following season.

MR. PATTILLO: Mr. Williams, my experience has been that in the building of a new line from the time it is conceived until you get on the ground for the purpose of starting construction is approximately a year. Do you know of any pipeline in Canada that has had any shorter experience than that, any original line?

MR. WILLIAMS: Yes, we have been able to negotiate construction of the Alberta Gas trunk line in which we are managers with a notice of less than a year; the notice was approximately from the date of financing of the Alberta trunk system in the spring of last year. I don't know the exact date, I believe it was in about March of last year that we received

the go-ahead, and we had our construction arranged. The Cremona pipeline was arranged in a similar manner, but we received a go-ahead in May and completed the line in August.

MR. PATTILLO: You are talking about provincial lines that don't require original financing or the approval of the Board of Transport or the preparation of surveys on the ground before the construction of the line is approved. I am talking about an inteprovincial line, which this would be. Do you know of any where construction has commenced earlier than a year from the time of the original application to the Board of Transport for approval of location?

MR. WILLIAMS: If I may be permitted to correct my previous statement, I was not allowing the time for any regulatory hearings or any proceedings that might be beyond the construction planning and construction period; I was considering only if construction planning were permitted to proceed.

MR. PATTILLO: In this estimate you have given us have you made any allowance for the magnitude of the financing problem?

MR. WILLIAMS: Yes, sir, we have.

MR. PATTILLO: How long do you think it would take you from the time of the inception of the scheme before the financing was arranged?

MR. WILLIAMS: We have been given a period of time that is beyond the scope of our study.

MR. PATTILLO: What period of time has been suggested to you?

MR. WILLIAMS: If I may say, I would like to refer that to Mr. Brown.

MR. PATTILLO: Right. Now, in connection with this line there would be a great deal of pumping equipment that would be required. How long do you anticipate it would be before that would be delivered on the site?

MR. WILLIAMS: Some of the pumping equipment would not be delivered until late in this year. However, it would permit the completion of the pumping stations in time for the operation of the line.

MR. PATTILLO: Do you think there would be no problem about getting all the pumping equipment that would be needed before you started now before the end of 1959?

MR. WILLIAMS: We have investigated that and find that it would be no problem.

MR. PATTILLO: Now, looking at your short report under date April the 14th, 1958, which is Exhibit 29-4, on page 2, I understand your first figure all right of construction costs. I am a little puzzled about your next figure of line fill.

Who owns the fill on the oil pipeline?

MR. WILLIAMS: The practice of owning line fill has a good deal of variation. In this case we have wished to take the conservative case and thereby not overstate the advantages of this line and had assumed that it would be an undue requirement of the producers to furnish the line fill since the line fill is the same as the line. We have included the line fill as part of the investment of the line.

MR. PATTILLO: Do you know of any interprovincial pipeline in Canada where the line fill belongs to anybody other than the refiners who have purchased the oil?

MR. WILLIAMS: I do not know of any, no, sir.

MR. PATTILLO: Mr. Williams, in making your projections, did you make an alternative projection of how much it would cost to build a take-off from the present interprovincial pipeline at the most satisfactory point direct to Montreal?

MR. WILLIAMS: No, sir; that would be beyond the scope of our report. We were requested to find and define the most economic system of transporting these quantities of oil from Alberta to Montreal.

MR. PATTILLO: We are going to be dealing after this with the brief of the Interprovincial

Pipe Line Company. They estimate that they can build a take-off from their line at a considerable lesser cost. You haven't given that any consideration at all?

MR. WILLIAMS: We have not, within the scope of our study, given that consideration. It has been given, possibly, some consideration by the other members of the group.

MR. PATTILLO: That is all I wish to ask you at the moment, Mr. Williams.

I would like to have Mr. Brown and whoever is advising you on the financing of this line, Mr. Brown, if he is available.

MR. BROWN, Jr.: I will endeavour to answer your questions. I have Mr. Paul Clark sitting on my left.

MR.PATTILLO: Mr. Brown, how do you envisage financing this proposed line to Montreal?

MR. BROWN, Jr.: I am going to ask Mr. Clark to answer that question, but before doing so and going back to the assignment we gave to Mr.Williams, he has explained the position to you that he took, and we indicated to him that we have found a means of finding preliminary money prior to public financing had we been successful in getting a commencement in the year 1959 in time to permit construction season work.

MR. PATTILLO: I don't suppose you have had

any experience of interprovincial pipelines, from the evidence you have already given us, but from what has happened in the past, don't you agree with me that if you said today that you were going to build this pipeline and that you would have no problem of throughput it would probably take you a minimum of one year before you could have all of your plans approved and the lands necessary for the right-of-way expropriated?

MR. BROWN, Jr.: Probably, sir, the time necessary for border transport hearings and things related to government would take that long. As far as the mechanics of finding the money for construction, including the acquisition of land, it would not be of that order.

MR. PATTILLO: Well, I appreciate the acquisition of land. Once you get your right to expropriate, you can fight about that for years, as to how much you are going to pay; but you are in on the land. But in order to get your right-of-way and have your contractors go on the line, I am suggesting it probably takes a minimum of one year from the time you start your project until that date has been achieved.

MR. BROWN, Jr.: I would think it would not take that long, sir, but it is not a point of importance, under the circumstances.

MR. PATTILLO: Now, will you please tell us how you envisage financing this line?

MR. BROWN, Jr.: May I ask Mr. Clark to answer that?

MR. CLARK: Mr. Pattillo, we have considered that first mortgage bonds would be sold privately; debentures and common stock would be sold publicly.

MR. PATTILLO: Where would the first mortgage bonds be sold? In the United States?

MR. CLARK: To the extent they would not be sold in Canada, yes.

MR. PATTILLO: But what quantum? What quantum of first mortgage bonds do you contemplate and what quantum do you envisage you could sell in Canada?

MR. CLARK: I believe that is subject to

determination. I can only say that, in recent experience with the Trans-Canada Pipe Lines, about $33 million, in round figures, of first mortgage bonds were placed in Canada and the balance of $125 million, in the aggregate, the balance being something under about $92 million were placed in the United States.

MR. PATTILLO: Mr. Clark, I am sorry. I did not make my question clear.

According to the figures we have from Mr. Williams, an amount of something over $400 million would be required. Can you give me the breakdown as to how that is going to be obtained?

MR. CLARK: I am referring to a map which disagrees with your map. I think the figures are $355 million for the most economic route.

MR. PATTILLO: That would not be an all-Canadian route?

MR. CLARK: No, sir.

MR. PATTILLO: Would you agree with me, Mr. Clark, having studied this thing, that if you are going to move oil from Alberta to Montreal you are not moving it there on economic grounds but are moving it there on national grounds?

MR. CLARK: I would not agree with that.

MR. PATTILLO: You would not agree with that. Well, in your experience, do you not know that if competition required, probably oil from the Middle

East and from Venezuela could be brought into Montreal at prices much below the prices that they are achieving today?

MR. CLARK: In my experience, I know that oil prices are subject to fluctuation, and to the extent that prices go down or up in any given market area as a result of oil from one source, generally, any other source serving that same area will adjust as well.

MR. PATTILLO: Well, perhaps let me put it this way: Do you think that if the laws of economy were given free rein, the Canadian oil from Alberta could compete successfully in the Montreal market with oil from Venezuela or the Middle East?

MR. CLARK: I believe they can, sir.

MR. PATTILLO: Now, will you please explain to us on what you base that opinion?

MR. CLARK: I base that on my studies of the Walter Levy Report, basically.

MR. PATTILLO: Well, the Levy Report said that at the present time the Canadian oil would be at a disadvantage in so far as Venezuelan and mid-east oil is concerned, taking posted prices.

MR. CLARK: I realize the Levy Report was made before the Dutton-Williams Report was produced, but the two in conjunction do not say that.

MR. PATTILLO: Well, I am looking at Exhibit CC-29-5, which is the addendum from Mr. Levy.

As I read that report, he says that in the month of April, comparing Venezuelan oil laid down at Montreal with posted prices in Alberta, there is a margin of 70¢ to enable you to transport it to Montreal and compete.

Is that correct?

MR. CLARK: Yes, sir.

MR. PATTILLO: And I understood yesterday from Mr. Brown that in the first year of operation of this pipeline it would cost more than 70¢ to put the oil into Montreal.

Is that right?

MR. CLARK: We are using a figure of 51.8¢ as the suggested figure.

MR. PATTILLO: Well, isn't that an average figure, Mr. Clark, based on 10 years' operation?

MR. CLARK: It is a figure which I believe was arrived at based on the pipeline being an economic enterprise.

MR. PATTILLO: But what I have difficulty in following is this:

If you get an average price of 51.8¢ for the first ten years of operation, that means that for a number of years you are going to have a much higher price. Now, if you allow the law of economics to flow, as long as you have that higher price, how are you going to put oil from Alberta there in competition with Venezuela?

MR. CLARK: Through growth.

MR. PATTILLO: Somebody must be picking up the tab in the meantime.

MR. CLARK: I think the pipeline is.

MR. PATTILLO: The pipeline is going to pick up the tab?

MR. CLARK: The pipeline will charge 51.8¢, even though the charge in the first year or in subsequent years, for a proper charge to reflect all costs, might be something higher.

MR. PATTILLO: Would you consider that you would have no difficulty in privately placing these bonds with an economic feasibility scheme such as that, showing that the pipeline is going to be operating at a substantial loss for a number of years?

MR. CLARK: It does not operate at a substantial loss for a number of years.

MR. PATTILLO: Well, have you prepared any pro forma statements or anything to assist us in looking at this matter?

MR. CLARK: I have some work sheets which indicate that at 51.8¢ the pipeline, and at beginning level of 200,000 barrels a day, the pipeline pays all operating costs, depreciation provision at $2\frac{1}{2}$% and interest charges, an assumed overall rate of $5\frac{1}{4}$%.

MR. PATTILLO: That, of course, is based on the southern route?

MR. CLARK: Yes, sir.

MR. PATTILLO: Let us say that we wanted an all-Canadian route, at a price of, was it, 54.8¢. Have you made any calculation, using that?

MR. CLARK: I have not, sir.

MR. PATTILLO: Let us go back, now: you say you would place the first mortgage bonds by private placement in Canada to the extent that the Canadian market would take it, or in the United States. Now, what, in gross, do you contemplate would be the amount of first mortgage bonds, using your figure that you have of $353 million, which is the most economical line?

MR. CLARK: I don't think the first mortgage bonds, in gross, would exceed $200 million.

MR. PATTILLO: What quantum would you put into debentures?

MR. CLARK: I don't think the debentures would exceed $100 million.

MR. PATTILLO: And that would mean that you would have to find $53 million in equity capital?

MR. CLARK: Substantially correct, sir.

MR. PATTILLO: Do you think that is feasible, based on your experience in financing these lines?

MR. CLARK: I believe it is, sir, given proper safeguards.

MR. PATTILLO: Let us have the proper safeguards.

MR. CLARK: I think they have to be a

long-term assurance, in the form of a contract between the pipeline and the refiner.

MR. PATTILLO: That is a throughput agreement signed by the refiner and which is, in effect, a guarantee of the interest requirements of the bonds and debentures?

MR. CLARK: That would be the effect. I think it might take the form of a payment of a tariff for minimum quantities of oil.

MR. PATTILLO: On a take-or-pay basis?

MR. CLARK: Right. I think, in addition to that, you have to have those minimum quantities perpetually and monthly nominated and you would need satisfactory assurance at the producing end that once those nominations are made, the oil would be available for the line.

MR. PATTILLO: So you would need a set-up something similar to the Trans-Canada set-up, in that you would have to have the producers signed up to guarantee deliveries, and the refiners set up to guarantee take?

MR. CLARK: I do not think you can take anything like an oil line and say it is similar to a gas line in those respects.

MR. PATTILLO: I could not agree with you more, but this one seems to be something like that.

MR. CLARK: No, because I had not envisaged the pipeline buying oil from the producers at one end and selling the oil, as such, to the refiners at the other end. I have visions of the pipeline being assured of a contract on a take-or-pay basis on a tariff.

MR. PATTILLO: I suggest to you that really boils down to this: refiners have, in effect, agreed to pay the interest on the mortgage debt.

MR. CLARK: Yes, sir.

MR. PATTILLO: What do the producers do?

MR. CLARK: In Alberta I believe it works this way: this is my understanding and, probably, any number of people here are more qualified to answer this question than I am -- the nominations go to the Conservation Board and that Board, in turn, pro rates the oil that is to go out for the ensuing month amongst the various producers.

MR. PATTILLO: Would it be fair to say on your proposed financing of this line, the burden of making the thing a financial success would fall entirely on the refiners?

MR. CLARK: I think it would substantially fall on the refiners, but I would not like to be unable

to deliver the 250,000 nomination per day of crude oil for one month to the refiners just because in the producing area it may be that their oil was sold somewhere else, to another pipeline. I would want that buttoned up.

MR. PATTILLO: That would be the sole requirement you would seek coming from the producer? He would have to undertake to meet the demand from the refiner?

MR. CLARK: That is correct.

MR. PATTILLO: Do you consider that it would be at all feasible to finance this line unless the refiners undertook to pay for a throughput sufficient to operate the pipeline company and enable it to pay its interest on its bonded indebtedness and provide funds for the sinking fund retirement allowance?

MR. CLARK: No, I do not; no, I do not. I think that would be the best way to demonstrate the feasibility. There may be a better way, but I have not considered it.

MR. PATTILLO: You have not heard of it, either.

Mr. Chairman, I do not, at this stage, propose to ask the company any further questions, but I would like to point out this: during your unavoidable absence, in my examination of Mr. Brown, and he has co-operated most fully, there were a good many

questions he was unable to answer because he did not know the answers to them. As you know, we are to have what I think somebody calls the "majors" coming up following Interprovincial Pipeline, and I propose to examine them fully about this proposed pipeline; and I would like to ask at this time if Mr. Brown gives his undertaking that he will return after they have been on the stand so we may clear up many of the things that could not be cleared up at this stage.

THE CHAIRMAN: I am sure Mr. Brown would wish to return.

MR. BROWN, Jr.: Yes, sir.

MR. PATTILLO: I suggest, Mr. Chairman, because of the procedure that we have been following in these sittings, before Mr. Frawley asks the questions that he wishes to ask, that the Commission ask the questions that they have, because Mr. Frawley would not mind.

MR. COMMISSIONER HOWLAND: Mr. Brown, it seems apparent to me that the general assumption underlying your marketing approach is that the commercial decisions, as you call it, I think, of the integrated oil companies are more vital and more strictly economic matters than the determination of markets. I wonder whether you can enlarge on that for me?

MR. BROWN, Jr.: Dr. Howland, I think it

could be expressed in this way: we have been seeking a solution to our marketing problem. We determined, as a result of the Levy Report and the work done for us by the Dutton-Williams group, that it was, in our opinion, economic to put Canadian oil into the Montreal market. I have made the point that the price of oil is not necessarily always the governing factor in what oil is used in a given market. I have tried to indicate that the reason for this is that when Alberta oil is being considered to supply a refinery, the refiner may only own a percentage of the oil that would service his requirement; whereas, overseas oil, he most probably would own 100 per cent of the oil and he would, therefore, have a commercial preference to use his wholly-owned lower replacement cost oil than to use Alberta oil of which he may only own a portion.

Does that answer your question, sir?

MR. COMMISSIONER HOWLAND: I think so, in part. We have heard this before; as you know, Trans Mountain in Victoria was talking about the same type of problem. Have you had any direct experience of these so-called commercial decisions of the integrated oil companies?

MR. BROWN, Jr.: As part of the producing industry, I could speak as having had the experience. The best illustration, I think, was during the Suez crisis when our oil moved not only into the Pacific

Northwest, but also into the San Francisco market. Our oil has been competitive with oil from Venezuela in San Francisco and the Pacific Northwest for a very long time. The only time we were able to sell it in that market was during the Suez crisis when other oil was not available. In other words, there is a commercial preference to use the oil imported from Indonesia, Venezuela, or the Middle East as opposed to using Alberta oil. Immediately the Suez crisis was over we ceased to send our oil into the San Francisco area regardless of the pricing factor.

MR. COMMISSIONER HOWLAND: If that is so, if the commercial decisions of your integrated companies is that vital and you feel it is not really possible to get the voluntary co-operation of the refinery in Montreal, this is the reason you think you must go beyond "voluntary"?

MR. BROWN, Jr.: That is correct. That is why we think we need a quota system.

MR. COMMISSIONER HOWLAND: Then you go from that deduction, if I understand your discussion, to an arbitrary decision to force them into participation; that is, by the quota method. Have you thought of any positive inducements to get them into this type of arrangement?

MR. BROWN, Jr.: We feel, sir, that there are no positive inducements we could think of to offer, and that it must come about, if it is in the

national interest to preserve the oil industry or help to develop one in Canada. We feel the logical step to take is to follow the plan across in the United States of America where they have the so-called voluntary system which, apparently, has become a mandatory system. We feel, because of the expenditures involved of building a pipeline to Montreal, we must start out with a mandatory system and guarantee.

MR. COMMISSIONER HOWLAND: In my reading of your brief and listening to your replies to counsel, I have somewhat of a sense -- it may be completely wrong, -- that you feel that the introduction of quotas in this regard is not a major step in a Canadian commercial policy. I wonder if you would correct me on that impression?

MR. BROWN, Jr.: I think it is a major step in the interests of Canada, sir, with regard to Canada's commercial relationship with Venezuela, if we may take that as an example. I do not consider it to be important, the number of dollars which we pay for imports from Venezuela -- you have $37 million that we sell in goods to Venezuela. I think Venezuela companies would buy their materials at the cheapest price in any market. I do not think we are particularly favoured; if we have flour in the West or products that they require that are cheaper, they will buy them. I do not think we have a preferential.

MR. COMMISSIONER HOWLAND: I was not

thinking so much, frankly, about Venezuela, but rather about the principle of quantitive restriction in trade. As you are probably well aware, Canada has had a major battle for the last 15, 20 years in entering into the European markets with many of her products because of this problem of quantitive restriction. You are now posing a rather major change which reached out to other products which, again, must hit the United States, if I understand you correctly, because you say there should be a quota on GAT petroleum products. I am not trying to be unfriendly to your proposal, but is it just as simple as you are putting it to us, this question of the quota arrangement?

MR. BROWN, Jr.: The mechanics of the quota arrangement and the relationship agreement and GAT and these things, I am not sufficiently experienced in the world of economics to express an opinion.

MR. COMMISSIONER HOWLAND: I am not trying to force you into a statement. You will agree that the Commission should have a rather careful look at Canada's general economic interests in considering your proposal?

MR. BROWN, Jr.: I think that is basic: our whole case is based on the national interest of Canada's economics.

MR. COMMISSIONER HOWLAND: There are a few people here from the Maritimes: I was rather interested in what you had to say about original application of this quota system. As I understand

it, you said the quota would, in effect, not apply to the Maritimes or would be large enough to supply their present requirements.

MR. BROWN, Jr.: Yes, sir.

MR. COMMISSIONER HOWLAND: But not to allow much growth, I imagine, and the Maritimes would like to see a little growth.

MR. BROWN, Jr.: I do not think, Dr. Howland, that I answered the question properly. From my point of view, the distances involved and the general economic picture, we would have no desire to put any restrictions on the Maritimes of any sort.

MR. COMMISSIONER HOWLAND: You would not mind Halifax supplying Montreal?

MR. BROWN, Jr.: If Halifax could do it more economically than oil from Alberta -- but we would have a terrific battle if oil were being imported to compete with Alberta oil.

MR. COMMISSIONER HOWLAND: But you would leave us alone on commercial decisions?

MR. BROWN, Jr.: I think we would have to, sir.

MR. COMMISSIONER HOWLAND: In the discussion of the problem of getting the Montreal refineries interested in the use of your Western oil, I believe you said you had not much idea of the cost which would be involved in the necessary technical changes to their refineries; is that correct?

MR. BROWN, Jr.: We do not believe there is any major expenditure involved. However, the refinery companies will, undoubtedly, speak for themselves and our studies may not have been adequate. Our primary concern was to find out whether or not Alberta oil could be used in the refineries and we satisfied ourselves it could.

MR. COMMISSIONER HOWLAND: Does Portland-Montreal Pipeline come into this at all? Would that be filled with the 20 per cent or whatever it is you are going to leave alone?

MR. BROWN, Jr.: It would hardly be filled.

MR. COMMISSIONER HOWLAND: Then you would have to take into consideration the cost involved to the owners of that pipeline in the consideration of the Montreal market?

MR. BROWN, Jr.: We do not think so, sir.

MR. COMMISSIONER HOWLAND: You do not think you would have to?

MR. BROWN, Jr.: No; I think that is a commercial venture in which you make a profit or make a loss.

MR. COMMISSIONER HOWLAND: If a national decision was taken which involved a loss, do you think this would be an ethical approach?

MR. BROWN, Jr.: I can recall an occasion when Mr. Abbott placed an embargo on certain matters that bankrupted a company I had, and I do not recall

anyone being too concerned about it. In any event, I dare say on this point most of the capital invested has been recovered. We would not consider it a factor in our programme.

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MR. COMMISSIONER HOWLAND: I was very interested, Mr. Brown, in some of your replies to our counsel regarding the pricing which would come about after the quota was applied, assuming it was in the Montreal market. It seemed to me, from listening to you, that you felt that the market, in fact, being a captive market, could be disciplined by the mechanism of the market still, despite the fact that you were going to cut down on the imports of petroleum products and that you were cutting out the competition of foreign crudes.

MR. BROWN, Jr.: Reducing, not eliminating.

MR. COMMISSIONER HOWLAND: And yet in some ways you seem to imply that the present refineries have a certain amount of ability to absorb some price increases such as the cost of converting their refineries.

MR. BROWN, Jr.: If there is a cost.

MR. COMMISSIONER HOWLAND: Well, that is right, there must be some cost. They are prepared, apparently, they should be prepared to absorb it and therefore they must have some capacity to absorb. Now, if that is so, then the present competitive situation is so that it must allow them a certain amount, in fact. Do you believe this?

MR. BROWN, Jr.: I think the statement I made was, as far as I knew, that product pricing in the Montreal area was based on product import which

carried a tax of 18% duty, and assuming that refineries in that area are as efficient, and I am sure they are, as the refineries in the northeastern part of the United States or wherever the products come from, I would think there is some modest margin.

MR. COMMISSIONER HOWLAND: Well, if you have the cost influence of market factor and almost creating a monopoly situation of getting an oil pipeline under some sort of Government protection, does this not suggest a problem of regulation and, if so, is the oil industry now prepared to think in terms of regulation?

MR. BROWN, Jr.: I can only speak for the group that I represent, and I think that we are quite prepared, in order to survive in this western business, to accept whatever regulation is necessary to increase our market by 200,000 to 300,000 barrels a day within a 10-year period. I think I should point out to you, sir, that these are suggested solutions to the problem. We don't really care how we get that 200,000 barrels per day, whether it be in Chicago, Montreal or the Pacific Northwest.

MR. COMMISSIONER HOWLAND: That clears up one point I wanted to ask you. You are not basically interested in the pipeline, you are interested in getting markets for oil?

MR. BROWN, Jr.: As far as this hearing is concerned, our basic problem, after exploring all

possibilities that we could see or our advisors could see, our basic concern is to show that it is economically feasible and practicable to put western oil into the Montreal market, that the western and Montreal market is economic.

MR. COMMISSIONER HOWLAND: Let us put it another way. If someone there were to find you a market without a pipeline involved, would you be quite happy?

MR. BROWN, Jr.: Providing that the market had permanence and could match the Montreal market in all ways. That, by the way, I think we have tried to indicate, we do not think is possible. Or putting it another way, if we could find a 250,00 barrels per day market in 1960 in the Pacific Northwest of the United States as against the 250,000 barrels per day market in the Montreal area, our preference, because the market is within the control of Canada, would be the Montreal market. We do not consider the American market a certain, safe or sure market in the light of quotas and preferences of the companies in the area and so on.

MR. COMMISSIONER HOWLAND: But this is in the light of your judgment of the security of the market, not in any interest in any particular pipeline?

MR. BROWN, Jr.: The pipeline results as a result of the work we have done, and we are definitely interested in pursuing the construction of

a pipeline in the Montreal area.

MR. COMMISSIONER HOWLAND: Just one last question, Mr. Brown. On page 3 of your brief you refer to the independent producers of oil in which you represent this group. Our counsel has asked you a large number of detailed questions. I wondered if you could give me some sense of proportion: how big a section of the industry are you speaking for, in just broad, general terms?

MR. BROWN, Jr.: We are preparing figures, which we intend to submit to Mr. Pattinlo, which I think will answer your question, sir. I would prefer not to answer it until we have completed those figures.

MR. COMMISSIONER HOWLAND: Fine. Thank you, Mr. Brown.

MR. COMMISSIONER BRITNELL: Mr. Brown, I note that twelve companies are listed as participating in this submission. Do all of these companies support the Montreal market proposal in full?

MR. BROWN, Jr.: All the companies whose names are on the cover of our submission support the statements made in the submission.

MR. COMMISSIONER BRITNELL: That is not quite my question. Do they support the Montreal market proposal in full?

MR. BROWN, Jr.: Yes, sir.

MR. COMMISSIONER BRITNELL: What is the aggregate production of these companies in terms of

daily production?

MR. BROWN, Jr.: Those are the figures that I told Dr. Howland we are having prepared.

MR. COMMISSIONER BRITNELL: All right. The cost of finding, developing and producing a barrel of crude oil in Western Canada and of transporting it to Eastern Canada can be fairly accurately stated, but I am much less certain about Venezuelan oil industry costs. How do exploration, development and production costs in Venezuela compare with those in Canada?

MR. BROWN, Jr.: Mr. Lee submitted the only figures we had on the subject, sir, and with your permission I will ask him to hand them to me.

MR. COMMISSIONER BRITNELL: I don't think they cover the whole field, do they?

MR. BROWN, Jr.: Yes, he submitted it to you for Venezuela, which was substantially less than in Canada.

MR. PATTILLO: 40¢ a barrel in Venezuela.

MR. COMMISSIONER BRITNELL: Following on that, how accurately do you think the posted prices for Venezuelan crude reflect the industry costs in that country?

MR. BROWN, Jr.: I don't think, sir, that the posted price for crude oil and the costs of finding oil are necessarily related at the present time.

MR. COMMISSIONER BRITNELL: Transportation

costs from Venezuela to Montreal can be computed from the quoted USMC rates, but how accurately do those computations reflect, in your opinion, the actual long-term charter rates?

MR. BROWN, Jr.: We think, sir -- and this is on the advice of Dr. Levy, and I think a question that he should answer -- we feel that the long-term charter rates are in the range of minus 30, minus 45. We know of spot rates which even go above minus 45, but as far as long-term charters are concerned, the investigation indicates that to be the range.

MR. COMMISSIONER BRITNELL: Could you give an opinion as to how much the price offering Venezuelan or Middle East crude oil laid down at Montreal could be cut in an effort to hold that market in the event of entry of Canadian crude?

MR. BROWN, Jr.: I must venture an opinion, but it is a very amateurish opinion. I would imagine that the price of oil other than in Venezuela or the Middle East, because of the political conditions of the area, because of the arrangements with respect to royalty, cannot be affected very much. So what you are talking about is the dollar profit content to the proprietor after he has paid the so-called posted price, and I think the decision there would be an individual one and would change for each company, depending on how anxious they were to find a market.

MR. COMMISSIONER BRITNELL: There may be some flexibility in them?

MR. BROWN, Jr.: Yes. Under our scheme of putting on an import quota, that would not affect our picture in Canada. This can be done on a temporary basis. There are always areas where you can have a temporary surplus, some operator who desires the oil to sell at less than the posted market price. I think in the Montreal picture that usually resolves itself and these things don't really happen. We use it as examples but they are isolated ones.

MR. COMMISSIONER BRITNELL: Do you think that the cost disadvantage now existing for Canadian crude at Montreal, as quoted in Part II, page 18, or 19, rather, of the Levy submission and the exhibit you submitted yesterday, could be considerably increased by foreign oil interests who are currently shipping oil to Montreal? Do they try to hold the market?

MR. BROWN, Jr.: Well, now, my first point, sir, would be to suggest to you that we do not admit thatthere is any price disadvantage as far as western oil is concerned. The supplement, Exhibit CC-29-5, indicates, I think, that we can make our oil in the Montreal market competitive with Venezuelan oil at a pipeline tariff of 70¢ a barrel. We are submitting that oil can be transported there for less than 70¢ a barrel so, momentarily, in the straight theory of it, our western Canadian crude has an advantage over the Officino 35 gravity versus Redwater 35 gravity. How much a company would be prepared to reduce its profit on a barrel of oil in the Middle East or in Venezuela is a matter of pure conjecture and I would not express an opinion on that, sir; I wouldn't know.

MR. COMMISSIONER BRITNELL: I take it that in addition to field price cuts and transportation economies you would also suggest, very definitely, Federal Government policy with respect to quotas. I am not quite clear whether, in addition to quotas, you would want some increase in tariffs, as well.

MR. BROWN, Jr.: We positively have not at any time suggested the necessity of a tariff. We do not feel the tariff is necessary.

MR. COMMISSIONER BRITNELL: Am I to take it, then, that you would not think it necessary to impose any additional duties on the -- or establish

quotas on refined or finished products?

MR. BROWN, Jr.: Yes, I felt there should be a ceiling placed on the amount of finished products that are imported into Canada and that, increasingly, we should try to capture that market.

MR. COMMISSIONER BRITNELL: That is, you would capture it how? By reducing the ceiling? Reducing the quotas on refined products coming into Canada?

MR. BROWN, Jr.: Perhaps, sir, I can answer the question this way: currently, product imports in Canada carry an average duty of approximately 18%. It varies, but the average works out to about 18%. In theory, that means that if we put the ceiling at the 1957 level of product imports, if we -- this is projecting into the year 1960, where we see that we can build a pipeline and we have a market for that year, a market of 200,000 barrels a day, that represents 70 to 75% of the oil being imported in the Montreal area. We say that in 1965 we want to move up to 80% of crude oil, replace 80% of the crude oil being used in the Montreal market.

Now, my statement about trying to capture the product market or reduce the product market is based on the fact that, with duty-free crude coming into Western Canada, as it is, then going into the Montreal market, we should try

and supplant as much of that product as can be economically done.

MR. COMMISSIONER BRITNELL: Dr. Howland suggested that the introduction of quotas represented, I think he suggested, some change in Canadian commercial policy. Do you not think that such a policy might invite retaliation by -- let us be very frank about this -- the United States Congress and that such retaliation might be highly prejudicial to certain other primary producers, say, the producers of lead and zinc and copper and, perhaps, even of some Canadian manufacturers?

MR. BROWN, Jr.: I would not like to express an opinion on products other than oil; and, with respect to oil, in any of the conversations which I have had with members of the Independent Petroleum Association in the United States (and I refer to their executive) and other operators and things published by the Independent Producers Association, I cannot conceive that this would be a move considered to be unfavourable, demanding retaliation.

I think we must remember that most of our oil and gas industry in Canada is, directly or indirectly, controlled by American interests. I can hardly rationalize Americans wanting to hurt their own interests.

MR. COMMISSIONER HARDY: Mr. Chairman,

just to follow up that point with one further question:

I am not clear why Mr. Brown is so emphatic that he must have this embargo. Is not what you need a contract with the refiners that they will take so much oil and that it does not matter to you as to the mechanism by which the refiners arrive at that decision? Why is it necessary to use the embargo rather than have it done by arrangement as, perhaps, might be organized by the Federal Government?

MR. BROWN, Jr.: Dr. Hardy, I think, in reply to a question put by Mr. Pattillo this morning, I did say that if we could get firm, long-term contracts for a minimum of 200,000 barrels a day, increasing to 300,000 barrels a day in 1965, without the embargo, it makes possible the financing of a pipeline.

At the moment, we are not confident that it would be possible for us to obtain such contracts and, therefore, we feel it might well be that a quota would be the only basis on which we could ultimately end up with contracts; but if we get them without the quota, it is the same thing.

MR. COMMISSIONER HARDY: That is your opinion; you are prepared to start with the contracts?

MR. BROWN, Jr.: Yes.

MR. COMMISSIONER HARDY: Thank you.

THE CHAIRMAN: Have you asked any of the refiners whether they would give you a contract?

MR. BROWN, Jr.: Sir, I have read some of their speeches recently in the newspaper and I have been discouraged from asking them.

MR. COMMISSIONER BRITNELL: With respect to commercial quantities and quotas, I assume you agree that the Canadian Government should look pretty carefully at the possibility that a move in that direction might lead to moves that would injure other Canadian producers and exporters?

MR. BROWN, Jr.: I think the point should not be unduly emphasized. I think you must certainly look at it with realism; but this matter came up in a discussion recently with one of the economists of the Department of Trade and Commerce and he was greatly concerned about the possibility of Canada losing $37 million of trade to Venezuela but showed very little concern about the fact that what we were talking about was a $250 million loss of business.

THE CHAIRMAN: Perhaps you should go to Venezuela and get them to put an embargo on wheat.

MR. BROWN, Jr.: Quite so, sir.

THE CHAIRMAN: And start from there.

MR. BROWN, Jr.: I think this question, as far as not only our industry is concerned but the whole Canadian economy, is probably one of the

largest items that many of us have seen dealt with and I think it should be considered in that light.

MR. COMMISSIONER BRITNELL: Just one more question, Mr. Brown:

I think, historically, we can say that Canadians have never been greatly frightened by government intervention or, indeed, in certain areas, of government ownership (that is, certain areas of the country's development) and, listening to the description of the way in which the refiners and the producers might undertake to make possible this pipeline, it would look as though, in view of the relatively small amount of risk involved, it might be possible to finance it in some way other than that which you have described.

Do you think that the interests of producers, of refiners, consumers -- who, of course, have to be considered -- and the Canadian public generally, might perhaps be better protected if the proposed pipeline were built under public ownership?

MR. BROWN, Jr.: I do not think that that is the case, sir. Constitutionally, it might be an issue.

MR. COMMISSIONER BRITNELL: Would you be prepared to give the Commission some reason for the faith that is in you, shall we say?

MR. BROWN, Jr.: May I answer your question this way, sir, that I voted Conservative

as an indication of my belief that there would always be moderation in the extent of government intrusion into private business.

MR. COMMISSIONER BRITNELL: I should hesitate to get into a political discussion, but my reading of Canadian economic history and constitutional history does not suggest to me that public ownership is peculiar, shall we say, to the other great national party in Canada.

THE CHAIRMAN: I think we had better adjourn for lunch and reassemble at two o'clock in this room.

---Whereupon the hearing adjourned, at 12.30 p.m., until 2.00 p.m.

---On resuming at 2.00 p.m.

THE CHAIRMAN: Gentlemen, the Commission will resume its hearings.

I think, Mr. Pattillo, there are one or two further questions the Commissioners had in mind to ask of Mr. Brown.

Mr. Levesque, I think you had a question?

MR. COMMISSIONER LEVESQUE: Yes, Mr. Chairman.

Mr. Brown, was the C_nadian market fully explored for the financing of this proposed pipeline; the issuing of the debentures, a $350 million issue?

MR. BROWN, Jr.: Yes.

MR. COMMISSIONER LEVESQUE: The Canadian market was fully explored?

MR. BROWN, Jr.: We sought advice of Mr. Allan Gordon, the president of Royal Securities and although there is not a definitive statement as to how much money could be raised in Canada, we do have opinions expressed by Mr. Gordon. We feel there is an area in which we have an opinion about how much money could be found in Canada and how much it would be necessary to find in New York, or, rather, through New York.

MR. COMMISSIONER LEVESQUE: But part of it is contemplated to be raised in Canada?

MR. BROWN, Jr.: The attitude, generally,

sir, is as much of the money as it is possible to find in Canada, we will make an effort to find. Anything we cannot find in Canada then, as Mr. Clark of Lehman Brothers indicated this morning, they feel that balance can be found as mortgage money in New York. I would anticipate most of the debenture and equity money can be found in Canada but any remaining balance they would endeavour to place in New York.

MR. COMMISSIONER LEVESQUE: Last week I saw where a pipeline's bonds were sold to only two insurance companies and one Canadian company for only $3 million. I think we have more than one insurance company in Canada. That is why I was asking if this plan had been fully explored.

MR. BROWN, Jr.: In the detail of it, much has not been fully explored.

THE CHAIRMAN: I think what Mr. Levesque is getting at is that the Commission would like to see an expression of view that Canadians would be given the first opportunity of debenture and equity financing.

MR. BROWN, Jr.: I hope, sir, I have made that clear.

THE CHAIRMAN: Mr. Frawley, have you any questions?

MR. FRAWLEY: No, sir, I have no questions.

THE CHAIRMAN: I thought we were going to hear from you in celebration of your winning over the

freight rates. I am sure we all congratulate you.

MR. FRAWLEY: Even if it did nothing else but give you an opportunity to say that, Mr. Chairman, I am very pleased.

THE CHAIRMAN: Mr. Pattillo?

MR. PATTILLO: There is only one other question I would like to ask that I missed this morning, and that is in connection with the equity itself; $53 million equity which would represent the share control of this pipeline company.

Have you investigated where that would be placed? Who would have the share control?

MR. BROWN, Jr.: We have that, sir, and the majority of that would be placed within the oil industry. We have not explored that in detail; however, there have been indications of interest so that we are confident that more than 51 per cent of the issue would be within the producing industry.

MR. PATTILLO: There is just one other question: today, insofar as Interprovincial is concerned, there are a number of the oil companies that have substantial shareholdings in it and some of those very companies are refiners who are in the Montreal market; is that not so?

MR. BROWN, Jr.: Yes, sir.

MR. PATTILLO: Now, if they were required to volunteer to take this Canadian oil in quotas, would you not think, probably, as part of the

[illegible]

volunteering they might say, "Will we move it over our pipeline?"

MR. BROWN, Jr.: I think we have tried to establish the point we do not think that the extension of the Interprovincial system would provide the most economic way of carrying a barrel of oil from the West to Montreal.

MR. PATTILLO: If they establish that you are wrong in that, and that it did, then would you agree that in the national scheme of things, it would be better to have that extension rather than an entire new line?

MR. BROWN, Jr.: This gets into a bit of political philosophy: I would question the desirability of establishing a monopoly on the transportation of oil within Canada.

MR. PATTILLO: Even though under the Pipe Lines Act any pipeline company can be declared a common carrier?

MR. BROWN, Jr.: My statement would still stand, sir, yes.

MR. PATTILLO: You see, Mr. Brown, what I am thinking about is this: if the problem that we are seeking solution for is the sale of Canadian oil, it would seem to me the best way to solve it is to accomplish that as cheaply as possible.

MR. BROWN, Jr.: Yes, sir.

MR. PATTILLO: Then, if it could be

established that an extension of the Interprovincial pipeline would be less expensive in original capital costs and in costs of transportation, I am suggesting to you that, perhaps, that should be the solution rather than the building of the new line.

MR. BROWN, Jr.: I can only express the opinion based on the evidence before us: we have a copy of the Interprovincial brief and we see no tariff indicated. Our own studies would indicate it is essential and it is in no way indicated as a criticism of Interprovincial because it has made a tremendous contribution to this industry in earlier days, but the very manner in which it was constructed results today in relatively high cost transportation. We do not think you can superimpose a further series of loopings on what already could be classified as an inefficient transportation system and end up with a cost comparable to what we propose with a brand new approach of a 30-inch line to Montreal. We are at a disadvantage in not having knowledge of their figures and, therefore, depending only on our own studies.

MR. PATTILLO: I understand they have some figures prepared and you will have an opportunity later.

MR. BROWN, Jr.: Yes, sir.

MR. PATTILLO: As far as I cam concerned, that concludes this stage of the hearing.

MR. BROWN, Jr.: May I make one correction:

I referred to the tariff on imported products as being approximately 18 per cent. What I intended to say was approximately 18¢ per barrel. In other words, this tariff is similar in nature to the 10 1/2¢ per barrel of oil going into the United States and is cents and not percentage.

There is one other observation I would like to make: we have tried in presenting our case for the 30-inch pipeline, to do so on a most conservative basis, and on that basis to still prove, in our view, that it is economic to move oil from the West to the East. We feel that there are two or three items in our costing which might be dealt with in a different manner than we have indicated in our presentation; namely, we have included an item of $24 million for line fill. Secondly, we included an extension from Bellshill Lake into Calgary, which might well be deferred, which would have effected a reduction in the initial cost of our system of approximately another $12 million. In other words, there is $36 million which might be dealt with in another manner which would bring our cost down to $317 million instead of $353 million which we show on our deferred route.

MR. PATTILLO: There is one matter we dealt with yesterday and you said you had figures but did not have them available then: that was the tanker cost from the head of the Lakes to Montreal.

MR. BROWN, Jr.: We are aware of the

undertaking to provide that, sir, and will as soon as it is possible to do so. We are incorporating that with the rest of the promises I made yesterday.

THE CHAIRMAN: Just before you leave, Mr. Brown, I am not quite clear on this: you asked Mr. Williams, Mr. Pattillo, how long from the start of construction to completion, and he answered, as I recall it, it would be the Fall of 1959, assuming the start of construction in a few weeks' time. I would like to get it in terms of months; do I assume from that answer it would be 18 months?

MR. BROWN, Jr.: I think, sir, it would take two full construction seasons and if no construction is done in the year 1958, then it would be 1960, in the Fall, before a line could be completed into Montreal.

THE CHAIRMAN: Would you draw any distinction between the southern and so-called northern route?

MR. BROWN, Jr.: No, sir, I would not. In either case we have talked in terms of using 12, 13, or 14 spreads and I do not think there is enough difference. The primary difference is $37 million in initial cost.

THE CHAIRMAN: Thank you very much, Mr. Brown, for the co-operation of you and your colleagues and your company and your associates here. This has been a very fine brief. I am sorry I missed the presentation yesterday and part of the discussion,

but I know from my fellow Commissioners and counsel and staff that you have been most helpful to us.

MR. BROWN, Jr.: Thank you, sir.

THE CHAIRMAN: Thank you very much.

MR. PATTILLO: The next brief we will take will be the brief of Interprovincial Pipe Line, and in order to have a minimum amount of confusion, I suggest that we have a break now.

THE CHAIRMAN: Gentlemen, we will have a short break.

---A short recess.

BB

Submission of

INTERPROVINCIAL PIPE LINE COMPANY

APPEARANCES:

Mr. T.S. Johnston	-	President
Mr. R.H. Clute	-	Chief Engineer
Mr. D.L. Mathieson	-	Solicitor
Mr. H. Lem Stevens Guille	-	Western Division Manager
Mr. D.G. Waldon	-	Treasurer
Mr. F.E. Warterfield	-	President, Pipe Line Consultants, Houston, Texas.
Mr. J.H. Ratcliffe	-	President, McLeod Young Weir & Co. Ltd., Toronto

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THE CHAIRMAN: Gentlemen, we will now resume our hearings.

Mr. Pattillo?

MR. PATTILLO: Thank you, Mr. Chairman.

We now propose to take up the brief of the Interprovincial Pipe Line Company. This brief has been submitted to the Commission, and I would suggest that it be marked CC-30-1. Mr.Johnston, I understand, as president of the company, is here, and Mr. Matheson is appearing as counsel, and perhaps Mr. Mathieson would introduce to the Commission the members of his group.

MR. MATHIESON: Mr. Chairman and members of the Commission, as Mr. Pattillo says, I am representing the company. I have passed out for the Commission's information a record of their names. They are: Mr. T.S.Johnston, president of the company, who will read the submission; Mr. R.H. Clute, chief engineer; Mr. H. Lem Stevens Guille, Western Division manager; Mr. D.G. Waldon, treasurer.

We have also with us, apart from the officials of the company I have just indicated, Mr. F.E. W terfield, who is president of Pipe Line Consultants, Houston, Texas, and whose services had been engaged for the purposes of examining our tariffs, and he will be available for any questioning.

We also have Mr. J.H. Ratcliffe, president of McLeod, Young, Weir & Co. Ltd., Toronto, to provide any evidence concerning our financing.

Unfortunately, Mr. Ratcliffe is not here today, but we trust he will be available sometime later.

THE CHAIRMAN: Will he be here tomorrow?

MR. MATHIESON: I am not sure, sir. I am afraid he won't be here until Friday morning. Possibly, if you agree, if he is late, we won't hold up the Commission, but he may be here on Friday.

THE CHAIRMAN: Certainly.

MR. MATHIESON: I might add, sir, that Mr. R.B. Burgess, general counsel of the company, was to have been at this hearing as counsel, but

unfortunately he became very seriously ill on Saturday and can't be here.

I would like to say on behalf of the company that we are pleased to see you back, Mr. Chairman.

THE CHAIRMAN: Thank you very much, Mr. Mathieson.

MR. MATHIESON: Mr. Johnston will now read the brief.

THE CHAIRMAN: Thank you. Mr. Johnston?

---EXHIBIT NO. CC-30-1: Submission of Interprovincial Pipe Line Company.

MR. JOHNSTON: Introduction: This submission has been prepared by Interprovincial Pipe Line Company with the object of providing the Commission with all relevant information concerning the organization, economics, and method of operation of the first oil pipe line company to construct a pipe line subsequent to the enactment of The Pipe Lines Act of Canada. Apart from certain comments as to the relevant legislation, and as to regulation and future economic aspects, and certain recommendations, it is presented in the form of a factual statement of the various phases of the Company's activities since its incorporation in 1949. Interprovincial Pipe Line Company and its connecting carriers provide the only pipe line outlet to Eastern Canada for Western Canadian crude, while the Trans Mountain Oil Pipe Line Company's system furnishes a similar outlet to the West Coast.

Bearing in mind the terms of reference of the Order-in-Council which established the Commission, this brief will review the problems involved in crude oil transportation in the light of this Company's experience under the following headings:

OPERATIONS (cont'd)
- Personnel
- Crossing international boundaries
- The difference in the approach to transmission of gas and oil and the reasons therefor

FINANCIAL STRUCTURE AND HISTORY
- Original financing
- 1953 financing
- 1954 financing
- Capitalization as at December 31, 1957
- Operating statements 1951-1957 (inc.)
- Capital stock -- principal shareholders and distribution as at December 31, 1957
- Employees Incentive Stock Option Plan

ECONOMIC ASPECTS
- Tariff structure and history
- Reduction of tariff rates, 1952
- Tariffs to Sarnia, Ontario
- Adjustment of tariffs for short hauls, 1955
- Additional charge for heavier crudes
- Tariff rates presently in effect
- Joint tariffs with other carriers
- Tariff schedules
- Complaint of International Refineries, Inc.
- Establishment of first tariff rates

The advisability of producing and refining companies owning shares in crude oil transmission pipe lines

PROSPECTS FOR EXTENSION TO MONTREAL MARKET

THE IMPACT OF TAXATION AND ENCOURAGEMENT REQUIRED FOR INCENTIVE

Summary of the Nature and Scope of The Company's Business: Interprovincial Pipe Line Company (Interprovincial) was incorporated by Special Act of the Parliament of Canada (C.34, 13 Geo. VI) which received Royal Assent on April 30, 1949. All of its corporate officers and eight of the nine members of the Board of Directors are Canadian citizens resident in Canada. The ninth director, a citizen of the United States of America, also resides in Canada.

The Company was formed for the purpose of constructing and operating a crude oil pipe line system to provide an eastern outlet for crude petroleum which had recently been discovered in the Leduc and Redwater fields in the Province of Alberta.

Since a considerable portion of its pipe line system was to be located in the United States it was deemed advisable to incorporate a United States subsidiary company to own and operate that portion of the pipe line. Accordingly Lakehead Pipe Line Company, Inc. (Lakehead), a Delaware corporation, was incorporated on August 29, 1949 and is a wholly-owned subsidiary of the Company. The chief corporate officers and the members of the Board of Directors of Lakehead are the same as those of Interprovincial.

Interprovincial operates as a common carrier and is engaged exclusively in the transportation of crude petroleum at established tariffs.

Lakehead operates its pipe line as an interstate common carrier for the transportation of crude oil and petroleum within the meaning of the Interstate Commerce Act of the United States of America. Under that Act the Interstate Commerce Commission has regulatory authority over the rates, regulations and other practices of common carrier oil pipe lines.

Throughout the remainder of this section and where applicable throughout this submission reference to "the Company" will include both Inter-

provincial and Lakehead, and reference to "the pipe line system" will include the pipe line in both Canada and the United States.

In the year 1950, the Company constructed a large diameter pipe line from a point in the vicinity of Edmonton, Alberta, to Superior, Wisconsin, a port on Lake Superior. This pipe line, with an extension to Redwater, Alberta was 1,129 miles long, and the whole system, with essential facilities, was in operation by December, 1950.

During 1951, the first full year of operation, the Company delivered some thirty million barrels (42 U.S. gallons) of crude oil to various points in Western Canada and to the Lakehead area in the United States. By far the greater part of the latter deliveries were for lake tanker shipments to Sarnia, Ontario.

In the years between 1950 and 1957, new oil fields have been found in Alberta and large reserves of oil have been discovered and developed in Saskatchewan and Manitoba. To keep pace with the rising volume of production and the increasing markets in Ontario and the United States, Interprovincial has enlarged and improved its system from year to year. A detailed review of this continuous development will be presented; the end result up to the present may be summarized as follows:

As of December 31, 1957, the Company's pipe line system extends from Redwater, in the vicinity

of Edmonton, Alberta, to Port Credit in the vicinity of Toronto, Ontario, a distance of 1,930 miles. It is the longest crude oil pipe line in the world. In addition, to increase its carrying capacity it has constructed parallel lines or "loops" on its existing right-of-way for a total of 1,116 miles. The aggregate length of pipe in use is therefore 3,046 miles. The system's continuous right-of-way traverses, from west to east, the Provinces of Alberta, Saskatchewan and Manitoba, the States of North Dakota, Minnesota, Wisconsin and Michigan and finally terminates in the Province of Ontario. Attached hereto as Appendix "A" is a map showing the general route of the pipe line. It is of interest to note its proximity to such major refining and marketing areas as Toledo, Ohio and Detroit, Michigan.

The following tabulation shows the length of pipe of varying diameters in use throughout the system.

Outside Diameter	Miles
16"	428
18"	363
20"	594
24"	690
26"	326
30"	645
	3,046

The volume of oil required to completely fill the pipe line system (line fill) is approximately 8,000,000 barrels.

There are 18 pumping stations in operation, and 82 storage tanks with a total capacity of 7,319,000 barrels.

The Company owns 102 dwelling houses which are rented to certain of its employees in locations where normal housing is not available.

The maximum pumping capacities (on a year round basis) out of the various pumping stations at the end of the 1957 construction program were as follows:

Edmonton, Alberta .... 235,000 barrels per day (b/d)
Regina, Saskatchewan.. 281,600
Cromer, Manitoba 326,500
Gretna, Manitoba 352,400
Clearbrook, Minnesota. 345,900
Superior, Wisconsin .. 232,000
Sarnia, Ontario 109,000

The following table compares crude oil deliveries in 1951 and 1957 and indicates the growth of the Company's operations.

(Expressed in Millions of Barrels)

	1957	1951
Western C nada	33.7	15.6
U.S. R fineries	20.7	.4
For tankers	4.1	14
Eastern Canada	41.4	-
	99.9	30

The financial history and present financial status of the Company will be reviewed in detail, but to give a general picture of the extent of the enterprise, the following figures are presented:

As of December 31, 1957, with comparison for 1951.

	1957	1951
Investment in fixed assets	$256,966,324	$80,167,500
Operating Revenue..	41,128,761	14,125,870
Net Income	9,544,661	3,352,706

The Interprovincial system is connected with the following gathering and/or transmission pipe lines and receives deliveries from them at the points indicated:

B-A Alberta Pipe Line Limited	Redwater, Alberta
Britamoil Pipe Line Company Limited	Edmonton, Alberta
Edmonton Pipe Line Company Limited	Edmonton, Alberta
Imperial Pipe Line Company Limited	Redwater, Excelsior and Edmonton, Alta.
Pembina Pipe Line Ltd.	Edmonton, Alberta
Gibson Crude Oil Purchasing Co. Ltd.	Hardisty, Alberta
Mid-Saskatchewan Pipe Lines Ltd.	Kerrobert, Saskatchewan
South Saskatchewan Pipe Line Company	Regina, Saskatchewan
Trans-Prairie Pipelines, Ltd.	Cromer, Manitoba
Westspur Pipe Line Company	Cromer, Manitoba

and is connected with the following pipe lines and

delivers crude oil to them at the points indicated:

Trans Mountain Oil Pipe Line Company	Edmonton, Alberta
Saskatoon Pipe Line Limited	Milden, Saskatchewan
B-A Saskatchewan Pipe Line Limited	Stoney Beach, Sask.
Anglo-Canadian Oils Limited	Souris, Manitoba
Winnipeg Pipe Line Co. Ltd.	Gretna, Manitoba
Minnesota Pipe Line Company	Clearbrook, Minnesota
Michigan-Ohio Pipe Line Corporation	Bay City, Michigan
Bay Pipe Line Corporation	Bay City, Michigan

The Interprovincial system either directly or in conjunction with its connecting carriers transports Western Canadian crude oil to refineries located at:

Saskatoon, Moose Jaw, and Regina in the Province of Saskatchewan

Brandon and Winnipeg in the Province of Manitoba.

St.Paul-Minneapolis area and Wrenshall in the State of Minnesota.

Superior in the State of Wisconsin

West Branch, Bay City and Midland in the State of Michigan, and

Sarnia, Clarkson and Port Credit in the Province of Ontario.

Oil Pipe Lines and Pipe Line Legislation in Canada: The transportation of crude petroleum from oil fields to refineries is an important and specialized branch of the petroleum industry. The most economic means of transporting petroleum over

land is by pipe line, and this method has been used in the United States and other oil producing countries for many years. Oil pipe lines have also been in use in several of the Provinces of Canada, but until the discovery of large reserves in Alberta there was insufficient production of crude oil in Canada to justify transportation by pipe line from one province to another, and there was no Federal legislation dealing with the matter. In February, 1947 Imperial Oil Limited brought in the Leduc field in the vicinity of Edmonton, Alberta. This successful outcome of a prolonged search for oil in the Prairie Provinces was soon followed by discoveries of additional fields in the Edmonton area.

These discoveries by Imperial and others soon made it apparent that oil reserves in Alberta were more than sufficient to supply that Province, and a study carried out in 1948 indicated that a pipe line to Regina, and possibly to the head of the Great Lakes, would provide an outlet for this surplus crude oil and would be a sound economic project. In the latter part of 1948 representations were made to the Federal Government requesting such legislation as would be appropriate to authorize and regulate the construction and operation of pipe lines connecting one province with another and crossing the international border. Such legislation appeared

necessary because a pipe line, like a railway, requires a continuous right-of-way over lands owned by many individuals and corporations whose property rights are affected, and again like a railway, a pipe line must cross rivers, provincial and municipal highways and utility lines of every description. Therefore, unless pipe lines connecting one province with any other or others were placed under exclusive Federal jurisdiction it seemed obvious that the construction and operation of such lines could be restricted or even prevented by the legislative action of any one province.

Although undoubtedly empowered to do so under the terms of the British North America Act, the Federal Government had never had occasion to enter this particular legislative field. The only Provincial precedents for similar legislation consisted of The Pipe Lines Acts of Alberta and Saskatchewan. There was also a considerable body of statute law governing pipe lines in a number of jurisdictions in the United States. None of these statutes, however, was appropriate for Federal legislation.

In these circumstances it is not surprising that those charged with drafting the proposed legislation patterned the new act to a considerable extent after the Railway Act. It was obvious that there are fundamental differences between railways

and pipe lines as to operating conditions and methods, financial structure, physical facilities and the basis for tariff rates but it was just as obvious that an extra-provincial pipe line system crossing the continent has much in common with our transcontinental railway systems. Another good reason for having the proposed new legislation correspond in some measure with the existing railway legislation was the country's long experience with railways and its complete unfamiliarity with pipe lines.

The Pipe Lines Act of Canada (R.S.C. 1952, C.211) received Royal Assent on April 30, 1949, and in the final result is patterned to a considerable extent after the Railway Act. A number of sections of the Railway Act are incorporated into the Pipe Lines Act by reference and many sections of The Pipe Lines Act are adapted from similar sections of the Railway Act. Under The Pipe Lines Act pipe lines are subject to the jurisdiction of the same regulatory body as railways, namely the Board of Transport Commissioners for Canada.

Prior to the enactment of The Pipe Lines Act the Federal Government, perhaps being influenced by railway experience and procedures, had adopted a policy whereby applicants for incorporation of interprovincial pipe line companies would be required to incorporate by a Special Act of Parliament rather than by letters patent. This policy was carried into

The Pipe Lines Act by Section 2, the Interpretation Section, which provides:

"2(b) 'company' means a person having authority under a Special Act to construct or operate pipe lines for the transportation of oil or gas;'

By an amendment passed in 1953 (2-3 Eliz. II, C.7) it is now provided:

"10A. No person, other than a person having authority under a Special Act to construct or operate pipe lines for the transportation of oil or gas, shall construct or operate an extra-provincial pipe line, but nothing in this section shall be construed to prohibit or prevent any person from operating or improving an extra-provincial pipe line constructed before the 1st day of October, 1953."

Corporate Set-up and Powers: Incorporation by Special Act: The Special Act incorporating Interprovincial Pipe Line Company (C. 34, 13 Geo. VI.) came into force on April 30, 1949. The Company, by Section 5, is vested with "all the powers, privileges and immunities conferred by, and (shall) be subject to all the limitations, liabilities and provisions of any general legislation relating to pipe lines for the transportation of Oil" enacted by Parliament. By Section 6(a) the Company, subject to such limitations and provisions, may --

"within or outside Canada construct, purchase, lease, or otherwise acquire, and hold, develop, operate, maintain, control, lease, mortgage, create liens upon, sell, convey, or otherwise dispose of and turn to account any and all interprovincial and/or international pipe lines, for the transportation of oil including pumping stations, terminals, storage tanks or reservoirs and all works relative thereto for use in connection with the said pipe lines."

By Section 6(c) the Company is authorized to exercise as ancillary and incidental to the purposes and objects set forth in the Special Act, subject to any express exclusions, the powers set forth in paragraphs (a) to (bb) of Subsection (1) of Section 14 of the Companies Act, 1934 (now R.S.C. 1952, C.53). The provisions of the Companies Act so incorporated include the ancillary and incidental powers conferred by that statute on companies incorporated by Letters Patent.

The Pipe Lines Act, by Section 3(a) thereof, is to be construed as incorporate with the Special Act and by paragraph (b) where the provisions of both Acts relate to the same subject-matter, those of the Special Act, so far as necessary to give effect to that Act, are to be taken to override the provisions of the general Act.

Interprovincial's pipe line system extends

into the United States near Gretna, Manitoba, and from there transports crude oil to and across the international boundary near Sarnia, Ontario. Complementary to the general powers conferred by the Special Act, The Pipe Lines Act confers specific power to extend its operation outside Canada as follows:

By Section 7 a Company, for the purpose of its undertaking, but subject to the provisions of the Act and the Special Act, may --

"(d) join its line with the pipe line of any other person at any points on its route."

By Section 9 --

"A Company operating a company pipe line from a place in Canada to a place on the international boundary line may exercise, beyond such boundary, in so far as permitted by the laws there in force, the powers that it may exercise in Canada."

It will be seen from the above that Parliament specifically contemplated the extension of the operations of pipe line companies into the United States.

Extensive powers are conferred by The Pipe Lines Act upon a Company authorized by a Special Act to construct and operate pipe lines. For instance, under Section 7, such a Company may enter upon and survey lands lying in the intended route and construct

its pipe line across the land of any person on the located line. However, the exercise of the right to construct and other powers, including the right to cross highways, railways, utility lines, etc. are subject to the prior approval of the Board of Transport Commissioners for Canada.

Jurisdiction of the Board of Transport Commissioners for Canada: The wide jurisdiction and authority conferred on the Board of Transport Commissioners by the R ilway Act (R.S.C. 1952, C.234) is incorporated into The Pipe Lines Act as follows:

> "4. The provisions of the Railway Act relating to sittings of the Board and the disposal of business, witnesses and evidence, practice and procedure, orders and decisions of the Board and appeal therefrom to the Supreme Court of Canada are applicable with respect to every inquiry, complaint, application or other proceeding under this Act, and the Board shall exercise and enjoy the same jurisdiction, powers and authority in matters under this Act as are vested in the Board by the Railway Act."

The terms of reference contained in the Order-in-Council establishing the Royal Commission include the power, inter alia, to inquire into and make recommendations concerning:

"(b) the problems involved in . . . the regulation of prices or rates to be charged or paid, the financial structure and control of pipe line corporations in relation to the setting of proper prices or charges, and all such other matters as it is necessary to enquire into and report upon, in order to ensure the efficient and economical operation of pipelines in the national interest;"

and

"(c) the extent of authority that might best be conferred on a National Energy Board to administer . . . such aspects of energy policy . . . as it may be desirable to entrust to such a Board, together with the character of administration and procedure that might best be established for such a Board;"

It may be of some interest and assistance, therefore, to review the authority conferred by The Pipe Lines Act upon the Board of Transport Commissioners for Canada.

A brief perusal of the Statute will make it apparent that there are few projects affecting public or private interests undertaken by a pipe line company that are not subject to the prior approval of the Board. In the following review some pertinent provisions of the Statute will be referred to in order to illustrate the jurisdiction of the

Board and its practice in exercising such jurisdiction.

A company may not begin construction of a pipe line until an Order granting leave to construct is obtained from the Board. (Section 11(a)). When such leave is granted it refers only to the general location of the proposed pipe line and its termini (Section 12(1)), and before beginning construction the Company must submit to the Board plans, profiles and books of reference showing the detailed route of the line and apply for the Board's approval thereof. (Section 11(b)). The administrative methods and procedures followed by the Board in discharging its duties under the above sections will be discussed later under the title "Historical Review of the Company's Construction of Pipe Lines and Facilities".

Even when the Board has approved the plans, profiles and books of reference the Company may not begin construction until,

> "copies of the plan, profile and book of reference so approved, duly certified as such by the Secretary of the Board, have been deposited in the offices of the registrars of deeds for the districts or counties through which such section or part of the company pipe line is to pass." (Section 11(c)).

The normal right-of-way required for a

large diameter pipe line is 60 feet in width. This usually provides ample space for construction and operation and leaves room for installation of additional lines if they are required. Under the provisions of Sections 28 and 29 the lands that may, without the consent of the owner, be taken for the right-of-way shall not exceed 60 feet in breadth, but with the Board's consent additional lands may be taken when necessary.

A pipe line company's right to cross any highway, railway, irrigation ditch, underground utility etc., is subject to the Board's approval (Section 31); similarly, the Board has the power to grant leave to others to cross a company pipe line with highways, railways, utility lines etc. (Section 32).

By General Order No. 812 dated July 12, 1955, the Board of Transport Commissioners has issued standard regulations regarding pipe crossings under railways. This Order was made pursuant to powers conferred upon the Board by the Railway Act. By General Order No. 813 dated July 12, 1955, the Board has issued standard regulations regarding company pipe line crossings. This Order was made pursuant to powers vested in the Board by The Pipe Lines Act. By paragraph 7 of the latter certain of the regulations promulgated by General Order No. 812 apply to the construction of a company pipe line under any

railway.

When the construction of a pipe line has been completed, leave of the Board must be obtained before it may be opened for the transportation of oil. Section 34 provides:

"34. No company pipe line and no section thereof shall be opened for the transportation of oil or gas until leave therefor has been obtained from the Board."

Upon application for such leave an oil pipe line company is required to furnish the Board with evidence that the line is ready for the safe carriage of oil and the Board may require an inspection by its Engineering Department before granting an Order.

The Board has control over disposal or alienation of a pipe line, for Section 10 provides:

"10. A company shall not, without the leave of the Board,

(a) sell, convey or lease to any person its company pipe line, in whole or in part;

(b) purchase or lease from any person any pipe line for the transportation of oil or gas;

(c) enter into an agreement for amalgamation with any other company; or

(d) abandon the operation of a company pipe line."

One consequence of this section is that it

is necessary to obtain the Board's consent before mortgaging the company's property for purposes of financing.

Part II of the Act (Sections 38-49) applies specifically to "Oil Lines". (See Section 38).

There are four sub headings in this Part as follows:

"Common Carriers"; Traffic, Tolls and Tariffs"; "Unjust Discrimination" and "Contracts Limiting Liability".

The first sub heading "Common Carriers" includes Sections 38 and 39 which state --

"38. This Part applies in respect of company pipe lines for the transportation of oil and to companies operating such lines."

"39. The Board may, by order, declare a company to be a common carrier whether the company has or has not acted or held itself out as a common carrier, and the expression 'common carrier' in the following sections of this Part means a company that has been declared by the Board to be a common carrier."

Interprovincial has always operated and held itself out as a common carrier (For example, see Throughput Agreement with Imperial Oil Limited of October 1, 1949)--(Appendix "C"), and has at all times voluntarily furnished the Board with copies of its published tariffs. The Board has not

declared the Company to be a common carrier.

There is a possible ambiguity in Part II of The Pipe Lines Act in that it may be argued whether or not Sections 40, 43, 44 and 45 thereof, which empower the Board to make Orders and Regulations and impose conditions as to traffic, tolls and tariffs, are applicable before the Board declares an oil pipe line company to be a common carrier. The matter was discussed in a Judgment of the Board in the case of International Refineries, Inc. vs. Interprovincial Pipe Line Company, reported in 75 Canadian Railway and Transport Cases at page 68 (April 23, 1957) (This case is discussed in more detail later under the title 'Economic Aspects' -- sub-title 'Tariff Structure and History'.), but in the light of their findings therein the Board did not deem it necessary to decide on the question.

The particular facts of the above case are not of any immediate interest in this review of the Board's jurisdiction, but the arguments presented by the parties, as to when an oil pipe line company should be declared to be a common carrier, and the Board's statement of its attitude on that point are informative and are quoted here from the Judgment:

At p. 75 --

"A number of grounds were advanced by International as to why the Board should declare Interprovincial to be a 'common carrier'. These

grounds included the facts as shown by the evidence that Interprovincial has, in two prospectuses, referred to itself as a 'common carrier'; it has eighteen customers; its tariffs imply 'common carrier' regulation; its Lakehead subsidiary is a 'common carrier' by U.S. law; the transportation of oil across Canada is of vital importance and should be subject to the scrutiny of this Board; it has expropriation rights and should therefore be subject to regulation. On the other hand, Interprovincial pointed out that a reading of the Railway Act and the Pipe Lines Act would justify the conclusion that the Railway Act is designed to provide a code of regulation in the public interest, while the Pipe Lines Act is designed to permit pipe line companies to operate with a minimum of regulation, and implementation of Part II of the latter act by a 'common carrier' declaration should only take place when the evidence shows an abuse by a pipe line company of its powers.

"The Board has concluded that at this time it is not necessary or desirable to declare Interprovincial to be a 'common carrier' pursuant to s. 39 of the Pipe Lines Act. However, the Board will not hesitate to declare any oil pipe line company subject to its

jurisdiction to be a 'common carrier' if, for any reason, the Board considers that it woul be in the public or national interest to do so."

On an application by International Refineries for leave to appeal from the Board's decision to the Supreme Court of Canada, Mr. Justice Rand said:

"I interpret this section (39) to place an absolute discretion in the Board and that it is not bound in any state of facts to make the declaration." (75 CRTC 114, at p. 118).

Under Part IV of the Act there are two subheadings -- "Accounts" and "Statistics".

Section 52 provides that the Board may prescribe or make regulations regarding the manner of keeping accounts, depreciation charges and a uniform system of accounts applicable to any class of company.

Section 53 provides that --

"(1) every person constructing or operating a pipe line for the transportation of oil or gas shall prepare and furnish to the Board returns of its capital, traffic, revenues, expenses and all other information required by the Board."

Concerning "Accounts" the Board in June of 1957 advised the oil pipe line companies under its jurisdiction that it had decided to prescribe a Uniform Classification of Accounts for Oil Pipe

Companies. After consultation w ith the pipe line companies concerned a provisional manual, patterned after the Interstate Commerce Commission Manual, was compiled and all companies concerned have undertaken to adopt the accounting system prescribed therein effective January 1, 1958. It is anticipated that after a reasonable trial period the provisional manual, with such changes as experience shows to be desirable, will be issued in final form.

Interprovincial has regularly provided the annual statistical returns required under Section 53.

Based upon its seven years of experience in construction and operations under the jurisdiction of the Board of Transport Commissioners, Interprovincial feels that the Board is the desirable Federal regulatory body for oil pipe lines. Interprovincial's experience has shown that the Board has discharged its judicial and administrative duties and functions under The Pipe Lines Act in a faithful and diligent manner and at all times has given a great deal of thoughtful consideration to the treatment and solution of the sometimes rather novel problems facing a comparatively young industry operating under new legislation.

Under The Pipe Lines Act the Board of Transport Commissioners is presently charged with the

regulation of pipe lines and it is this Company's unqualified recommendation that such regulation remain with that Board.

Subsidiary Companies in the United States: As was mentioned in the opening of this submission, in order to finance and own and operate that part of the Company's pipe line system in the United States, a United States subsidiary, Lakehead Pipe Line Company, Inc., was incorporated on August 29, 1949. Its principal place of business is Superior, Wisconsin.

A second wholly-owned subsidiary of Interprovincial known as Lake Superior Pipe Line Corporation (Lake Superior) was formed on December 29, 1949. This was done in order to comply with the then existing alien property laws of the States of Minnesota and Wisconsin. Interprovincial therefore caused Lake Superior to be organized under the laws of the State of Minnesota. Lake Superior acquired all of the then outstanding capital stock of Lakehead on January 4, 1950, and all the issued stock of Lake Superior was held by Interprovincial. By 1953 the statutory restriction on the ownership of property in Minnesota and Wisconsin had been modified. As there was then no longer any need for an intermediate subsidiary, an Agreement of Merger dated November 16, 1953 was entered into between Lake Superior Pipe Line Corporation and Lakehead Pipe

Line Company, Inc. whereby the two companies were merged, with Lakehead continuing as the surviving corporation. It was agreed that as of the date of the merger, Interprovincial would be the owner and entitled to have registered in its name, all the issued and outstanding shares of capital stock of Lakehead, the surviving corporation.

As the Lake Superior Company no longer exists, it will not be referred to in the review of the financial structure of Interprovincial or Lakehead, or the combined Interprovincial-Lakehead system. It is mentioned here, however, since an examination of the early financial documents would raise an inquiry as to the identity of this subsidiary.

Historical Review of the Company's Construction of Pipe Lines and Facilities: Initial construction program:

The initial thinking of those planning an outlet for Alberta crude oil was to construct a pipe line from Edmonton to Regina, a distance of 438 miles. By the summer of 1949, however, the rate of production from existing wells and further discoveries of new fields in the Edmonton area made it evident that there were sufficient oil reserves in Alberta to supply not only the Prairie Provinces, but a considerable part of the markets in Ontario and some in the United States as well. It was therefore decided to extend the proposed pipe line beyond

Regina, through Gretna, Manitoba, a town near the international boundary, and thence to Superior, Wisconsin, at the head of the Great Lakes. The construction of tankage and dock facilities at Superior would enable shipments to be made to the Sarnia, Ontario, refinery area by lake tankers and the construction of additional storage tanks would provide for a continuous pumping schedule from Alberta during the closed season of navigation. This was the plan finally adopted by Interprovincial and envisaged 774 miles of pipe in Canada and 324 miles in the United States, or a total of 1,098 miles. (An extension of 31 miles from Edmonton to Redwater made the aggregate of 1,129 miles previously mentioned).

The revised planning entailed not only new engineering problems, but also the survey and acquisition of almost 700 miles of additional right-of-way within a period of a few months, the acquisition of steel, the laying of 700 additional miles of pipe and the construction of additional pumping stations and a tank farm and dock facilities at Superior.

As a matter of historical interest, it may be pertinent to recall the problems which confronted those charged with the undertaking. These were all the more difficult in that although personnel required to fill the key positions of the proposed

organization were transferred or borrowed from other companies only a few of these had previous pipe line experience.

Engineering: During the early planning stage a group of Canadian engineers established a design office at Tulsa, Oklahoma in November, 1948. Tulsa was selected because it was the headquarters of a large number of pipe line operators and equipment suppliers which made readily available to the engineering staff all the wide experience of established organizations in pipe line techniques and the type of materials and equipment needed for the undertaking. In November, 1949, this engineering group moved to Edmonton where the Head Office of Interprovincial had been established.

The Company's engineers were obliged to find answers to many problems, some of which include the following:

What maximum throughputs would be required? How varying temperatures affect viscosity of the crude and throughputs? How to protect the pipe from corrosion? What of frost penetration and the soil coverage required to provide reasonable winter operating temperature? How much pressure drop per mile in various diameters of pipe? How best to construct river crossings and the strength and protection of pipe in such crossings? The best type and size of pipe to be used, particularly in view of the

prevailing world shortage in steel? How many pumping stations were required and where located? The most favourable route to follow to avoid major ground contours, lakes and difficult terrain?

When the project was limited to a line from Edmonton to Regina, 16-inch pipe, which was the largest then made in Canada, had been ordered, but the extension being decided upon and with potential production mounting rapidly, it was decided to increase the size of the pipe in the Edmonton to Regina section from 16 inches outside diameter (O.D.) to 20 inches O.D.

As a Canadian firm already had the contract for the 16-inch pipe, it was necessary to use this pipe in Canada. Studies proved it was practical to use this size of pipe on the section from Regina to Gretna, Manitoba, because there would be a fairly large take-off of crude for refineries at Regina, decreasing the throughput and the required size of the pipe line east of that city.

As a result of all calculations and on the basis of the pipe available on the world markets, it was decided to construct a 20-inch diameter line from Edmonton to Regina, a 16-inch line from there to Gretna near the international border and an 18-inch diameter line from Gretna to Superior. It was also decided to build seven pumping stations at the following points:

Redwater and Edmonton, Alberta,
Kerrobert and Regina, S skatchewan,
Cromer and Gretna, Manitoba,
Clearbrook, Minnesota.

A detailed investigation and study of the best route to follow was undertaken. Among the first tasks in the initial planning stage was an aerial survey of the proposed route. Several reconnaissance flights were made and the most favourable general route was selected. Then followed an aerial photog aphic survey to provide stereo and mosaic prints for close study. The complete set of stereos were used to locate major obstacles such as farm buildings and other permanent structures on the route. Maps were made up from the mosaics showing the route of of the pipe line and these maps provided the information for the detailed ground survey carried out in 1949. The result of these studies indicated that on the basis of economic construction and sound line maintenance, the logical terminal would be Superior, Wisconsin. At that time it was estimated that to construct the line to a Canadian port on Lake Superior would have required additional investment capital of over ten million dollars, or over 10% of whole project cost, that the laid-down cost of western crude in the east would have been increased by ten cents a barrel, and that an additional year's time would have been needed for construction.

The scheme was an engineering project on a grand scale but the problems were surmountable provided the money and materials were made available, the requisite rights-of-way could be acquired, and that leave to construct the line could be obtained under the new Pipe Lines Act of C nada.

Rights-of-Way: The task of surveying the exact route and acquiring rights-of-way over the tremendous distances involved was so well accomplished that before the end of 1949 completed plans of the Edmonton to Gretna section had been presented to the Board of Transport Commissioners, and before construction started in the spring of 1950 a continuous chain of easements or legal rights to possession existed from Redwater to Superior. In all, approximately 2,100 landowners in Canada and 400 in the United States were involved. That good relations with owners were maintained is evident from the fact that for some 800 miles of easements in Canada, only three cases of contested expropriations occurred.

Construction: During the initial construction of the pipe line in 1950, there were no contractors in Canada with the expert knowledge, the trained personnel or the specialized machinery required for the operation. However, 80% of the manpower engaged on construction in Canada was Canadian. Actual construction of the 1,129 miles of line took 150 days to complete and operations

commenced out of Edmonton on October 4, 1950, with oil arriving in Superior early in December of that year. It is believed to be the shortest period in which a comparable pipe line has ever been built. Experience has shown that it was well built.

Some of the legal problems involved in the preliminary stages of the Company's history will be referred to in the following paragraphs.

Exportation of Power and Fluids and Importation of Gas Act: At the time Interprovincial was incorporated, and also at the time it made its application to the Board of Transport Commissioners for Canada for leave to construct its pipe line to the international boundary the Electricity and Fluid Exportation Act, R.S.C. 1927 C.54 was in effect.

The relevant sections of this Act were sections 5, 6, 7 and 8 which read as follows:

"5. (1) No person shall export any power or fluid without a licence, or any power or fluid in excess of the quantity permitted by his licence, or otherwise than as permitted by such licence.

(2) No person shall, without a licence, construct or place in position any line of wire or other conductor for the exportation of power, or any pipe line or other like contrivance for the exportation of fluid.

"6. (1) Subject to any regulations of the Governor in Council in that behalf, the Governor in Council may grant licences, upon such conditions as he thinks proper, for the exportation of power or fluid where a right to export exists by lawful authority.

(2) Such licence is revocable upon such

notice to the licensee as the Governor in Council deems reasonable in each case.

"7. (1) Any such licence may provide that the quantity of power or fluid to be exported shall be limited to the surplus, after the licensee has supplied for distribution to customers for use in Canada power or fluid to the extent defined by such licence, at prices and in accordance with conditions, rules and regulations prescribed by the Governor in Council.

(2) Every such licence is revocable at will by the Governor in Council if the licensee refuses or neglects to comply with any of the conditions imposed with regard to the supply and distribution of power or fluid in Canada.

"8. Subject to any regulations of the Governor in Council in that behalf, the Governor in Council may grant licences for the construction, placing or laying of any line of wire or other conductor for the exportation of power, or of any pipe line or other like contrivance for the exportation of fluid."

In view of these provisions the Board of Transport Commissioners, before granting the Company

leave to construct, required evidence that both the Company and its proposed shippers either had or could obtain the required licences. These licences had not been obtained at the date of the hearing but evidence was given on behalf of the Department of Trade and Commerce that favourable consideration would be given to the granting of such licences, and in fact the licences were granted shortly thereafter.

It is of interest to note that in 1955 the Electricity and Fluid Exportation Act was repealed and replaced by the Exportation of Power and Fluids and Importation of Gas Act. (1955 C.14). In the new Act the provision requiring a pipe line company to obtain a licence to construct a pipe line for the exportation of oil has been deleted.

The Board of Transport Commissioners for Canada - Applications for leave to construct and approval of route: The Pipe Lines Act and the Special Act Incorporating Interprovincial received Royal Assent Saturday, April 30, 1949.

Leaving aside at this time the financing arrangements which will be dealt with subsequently under the title "Financial Structure and History" the next step was to apply to The Board of Transport Commissioners for Canada under the provisions of The Pipe Lines Act, for an Order granting the Company leave to construct the pipe line. If such an Order

were made the next step would be to complete detailed plans, profiles and books of reference to submit to the Board for approval. It would only be after such plans were approved and deposited in the required land registry districts that the Company could really get on with the work of acquiring the necessary right-of-way.

If the line was to be completed and in operation before the end of 1950 time was obviously of the essence and by letter of May 2, 1949 Counsel for the Company notified the Board of Interprovincial's intention to apply for leave to construct a pipe line from Edmonton to Regina. This was followed by a formal application, filed on May 9, and on that day the Board issued its first formal Order under The Pipe Lines Act (Order 72367), directing that the Company's application be heard on June 7, 1949, and further directing service of the application and route map filed upon the railways, municipal corporations and public utility boards concerned, together with publication in newspapers along the route. The application of May 9, 1949, and the Board's preliminary Order of the same date, were made pursuant to Section 12 (1) and (2) of The Pipe Lines Act which states:

"12. (1) Upon an application for an order granting leave to construct a line, the company shall file with the Board a map showing

the general location of the proposed line, the termini, and all cities, towns, villages, railways and navigable waters through, under or across which the line is to pass.

(2) The Company shall file a copy of the application and of the map with the Attorney-General of each province to which the application relates in whole or in part, and the Board shall require notice of the application to be given by publication in newspapers or otherwise."

(By Circular No. 266, issued by the Board on February 21, 1951, the Board requires the route map showing the general location of the proposed pipe line, to be on a scale of not more than eight miles to the inch and that it shall show all cities, towns, villages, railways and navigable waters through, under, or across which the pipe line is to pass and such as may be within a radius of thirty miles of the proposed line, and generally the physical features of the country through which the pipe line is to be constructed.)

On June 10, 1949, the Board granted Interprovincial leave to construct the pipe line from Edmonton to Regina. (Order No. 72550). As the result of subsequent applications, the Board granted

leave to construct from Regina to Gretna, Manitoba, on September 15, 1949, (Order No. 73069) and from Edmonton to Redwater on March 6, 1950. (Order No.74080). As these Orders covered the whole Canadian section of the line operated by the Company prior to its extension to Ontario in 1953, they will be considered together for the purpose of describing the Board's method of exercising its functions under The Pipe Lines Act.

Section 12 (3) states:

> "Upon the application, the Board shall have regard to all considerations that appear to it to be relevant and in particular to the objection of any party interested, to a public interest that in the Board's opinion may be affected by the granting or the refusing of the application, and to the financial responsibility of the applicant."

The evidence required by the Board as to what considerations are relevant to the public interest, to the objections of parties interested and to the financial responsibility of the Applicant, is well illustrated in the first two applications of this Company above referred to. (The line to Redwater was only 31 miles in length and is not of comparable importance.) The Judgment of the Board on the initial application for leave to construct the pipe line from Edmonton to Regina is reported in 64 C.R.T.C.

193 (June 10, 1949). The evidence furnished by the Applicant was considered favourably and the Chief Commissioner referred to such evidence on the following points (p.194):

1. The general location as shown on the route map.

2. The length of the proposed pipe line and its diameter.

3. The estimated oil reserves in the Province of Alberta; the potential daily output from the Alberta oil fields; the pumping and drilling facilities in the oil field.

4. Distribution of oil at the terminus of the pipe line.

5. Detailed consideration of the financial responsibility of the Applicant.

On the date of this application, Interprovincial had few assets, and at that time was a wholly owned subsidiary of Imperial Oil Limited. (Subsequently, with the sale of capital stock to others and the conversion of convertible debentures to stock Imperial's percentage interest dropped and as of this date Imperial owns 33.22% of the Company's issued stock.) The Board's Judgment stated that Imperial had already subseibed for 10,000 shares at $50 per share to be issued by the Applicant, and had also assumed direct responsibility for the purchase price of pipe in the estimated amount of $9,000,000. At the request of the Board, Imperial also filed an undertaking with the Board in which it undertook to provide, or cause to be provided, to Interprovincial sufficient funds that the latter

Company would be in a position financially to construct and complete the pipe lines. Imperial also filed a copy of its last Balance Sheet.

After referring to this evidence, the Chief Commissioner said (p.195):

> "The Board is of opinion that the financial commitments already made by the Imperial Oil Limited, together with its undertaking and evidence as to its ability to fulfil the conditions of its undertaking, are complete and satisfactory evidence as to the financial responsibility of the applicant."

The Board's reasons for Judgment granting the Company's application for leave to construct from Regina to Gretna are reported in 64 C.R.T.C. p.189 (September 12, 1949). This decision is of particular interest in view of the fact that the proposed system would extend across the international boundary. The total cost of the pipe line, including facilities, from Edmonton to Superior was estimated to be $90,000,000, which figure included $5,000,000 for working capital. After reviewing the detailed evidence furnished as to the issuance of bonds and other securities to finance the construction, the Chief Commissioner said (p.191):

> "The Board is satisfied that the evidence as to f financial responsibility of the company respecting this enterprise is satisfactory."

As to oil resources, the Judgment states

(p. 191):

> "Satisfactory evidence was furnished as to the quantity of oil available to justify construction of the pipe line. The evidence as to the oil resources of the Province of Alberta was of a nature to satisfy completely the minds of the members of this Board in this regard."

The evidence as to markets in Sarnia, Ontario, for oil transported by pipe line to the terminal at Superior, Wisconsin, was also considered and found satisfactory (p. 191).

In connection with the requirements of the Electricity and Fluid Exportation Act referred to above conclusive evidence was given by a representative of the Federal Government that favourable consideration would be given to the granting of a licence to Interprovincial to construct a pipe line which would carry the oil outside Canada and also that a licence could be obtained by Imperial Oil Limited for the export of the oil (p. 192).

The question of the feasibility of the Company constructing its pipe line completely in Canadian territory rather than going through the United States was reviewed at this time. On this question the Judgment states as follows (p. 192):

> "The Board received a number of telegrams from organizations and other parties in Fort William and Port Arthur, Ontario, protesting the proposal

that the proposed line would connect at Gretna with another pipe line passing through United States territory. It was suggested that the pipe line from Regina should pass through Canadian territory to Fort William. The evidence indicated, however, that after having made careful surveys the applicants were unable to find a location for a pipe line passing through the Canadian head of the lakes territory that could be constructed without greatly increased cost and delay.

"The territory selected for the location of the line from Gretna to Superior, Wisconsin, is of a nature that at least $10,635,000 will be saved in the construction of the line as compared to the cost of a line passing through Kenora and other points in Canadian territory to Fort William. The additional costs in the construction of the line would result in transportation costs which would make it impossible for Alberta crude oil to compete with crude oil from the mid-Western States and other areas to Sarnia."

The above decisions indicate the evidence which was required, from the very inception of pipe line legislation, to satisfy the Board that the construction of a particular pipe line was warranted.

On a company's application for an Order, under Section 13 of The Pipe Lines Act there must be

submitted to the Board for its approval, a plan, profile and book of reference. The plan and profile show the exact location of the proposed line on a scale of 1,000 feet to the inch (Section13 (2) and Board Circular No. 266). The book of reference describes the portion of land to be taken in each parcel of land to be traversed and "the area, length and width of the portion of each parcel to be taken, and the names of the owners and occupiers so far as they can be ascertained." (Section 13 (1) and (3).

Although it is not required by The Pipe Lines Act, Interprovincial from its inception has adopted the policy of having its route surveyed on the ground before preparing its plans, profiles and books of reference for submission to the Board. Thus the plans, when submitted, are signed by a Provincial Land Surveyor of the province concerned. This in turn means that, after approval by the Board, the plans, as well as being deposited under The Pipe Lines Act, may be filed or registered in the relevant land registration district under the provisions of the provincial land registration statutes and the land descriptions used in the Company's easements may be made merely by reference to a registered or filed plan rather than by a metes and bounds description or by attaching an individual sketch to each easement.

During and since 1949, whether for extension of the pipe line or for "looping" construction along

the existing right-of-way, it has been Interprovincial's practice to have its employees and agents make personal calls on the owners and public officials concerned in order to explain the Company's intentions. Subsequent to an Order granting leave to construct and prior to the Board's approval of the exact location of the line, it has also been the Company's practice to enter into option agreements with owners of lands which will be affected if the Board approves the route of the proposed right-of-way. Such options have attached the forms of easements proposed to be entered into if and when the route is approved.

It has been Interprovincial's practice when applying for the Board's approval of a plan, profile and book of reference under Section 13 to also apply under Section 31 for leave to carry the pipe line across all highways, railways, utility lines, etc., proposed to be crossed. For this application drawings of all such crossings, showing the location and the details of the crossing, must also be prepared. At the hearing of such applications any person, corporation or public authority concerned has the right to appear and object to the proposed route of the line, or to the location or nature of the crossing.

As an example of the Board's method of procedure in dealing with the applications for approval of plans, profiles and books of reference as well as leave to effect crossings, the Company's most recent

experience will be referred to. By Order No. 88980 of June 8, 1956, the Board granted the Company leave to construct an extension of its pipe line from Sarnia to Port Credit, Ontario, a distance of approximately 156 miles. This Order was granted after the usual public hearing which was held in Ottawa. By January of 1957, the Company had completed its survey of the route, had been granted options by a large majority of the landowners affected, and had obtained consents from most of the corporations and public authorities concerned to the crossings required to be approved by the Board. The Company applied to the Board on January 22, 1957 for the necessary Orders pursuant to Sections 13 and 31 of the Act. At this time the Board had been informed of a number of objections to the Company's proposed route. It therefore directed, by Order No. 90770 dated January 22, 1957, that the application would be heard on February 19, 1957 and selected Toronto as the place of hearing to suit the convenience of the majority of those objecting. It also directed publication of notice of the application in newspapers published in ten cities along the route. Further, service by registered mail of the notice and copies of the plans, profiles and books of reference was required to be made on the Attorney-General of Ontario, the Minister of Public Works, Ottawa, railway companies, public utility companies and other pipe lines as well as on the clerk of each county

and township affected by the proposed pipe line. The hearing of the Company's application was held in Toronto on February 19 to 21 inclusive and was attended by representatives of townships, companies and property owners and their counsel. After hearing the evidence of many witnesses and argument of counsel, the Board, by Order No. 91095 dated February 28, 1957, granted the Company's application.

The Pipe Lines Act has imposed upon the Board of Transport Commissioners the responsibility of protecting both public and private interests. The procedures followed by the Board and the decisions above referred to demonstrate the care taken by the Board in carrying out this responsibility.

Progressive expansion of the pipe line system and facilities: It has been Interprovincial's policy since the original 1950 construction program to make the necessary plant additions each year which will enable it to meet its pumping commitments for the following year. That is, the 1951 physical capital budget, approving the 1951 construction program, was based on forecast 1952 pumpings. This procedure has been followed each year since that time, and because of an ever-expanding market for crude, major construction programs were completed each year except during 1955.

Accordingly, expansion of the Interprovincial Pipe Line system has occurred in a stepwise manner,

by years. Sometimes it happens, however, that a construction program for a certain year is not completed by the end of that year but is carried over into the early months of the following year. In addition, it has also happened that a pressing need has required the installation of a minor project a few months before its budget year. However, to simplify the following discussions of capacities and investments, it will be assumed that all construction projects are started and completed in their budget year.

It may be of interest to refer to Appendix "B" hereto, which illustrates the following in more detail.

Before 1951 Construction: Before the 1951 construction program started, Interprovincial had a 1,129 mile pipe line from Redwater, Alberta to Superior, Wisconsin crossing the international boundary just south of Winnipeg near Gretna, Manitoba. The pipe line varied in size from 20" to 16" in diameter, and there were six main pumping stations, located at Edmonton, Alberta, Kerrobert and Regina, Saskatchewan, Cromer and Gretna, Manitoba and Clearbrook, Minnesota. This line delivered crude to refineries in Alberta, Saskatchewan and Manitoba, and to lake tankers at Superior, Wisconsin. These tankers moved the crude from Superior to Sarnia, Ontario. The operation of this original pipe line, therefore, was limited somewhat (as far as the Ontario market was concerned) to the navigation season, except

that the Company owned approximately 1,800,000 barrels of crude storage at Superior which was used to maintain minimum pumpings into Superior in the winter period. The decision to construct sufficient storage at Superior to maintain pumpings at the year round average was deferred because of the large investment involved and the feeling (later realized) that the line would eventually extend beyond Superior to Sarnia. Thus, early in 1951 the Company had a $73,117,000 system with the following yearly average capacities:

Edmonton to Regina	103,200 barrels per day (b/d)
Regina to Gretna	69,000 b/d
Gretna to Superior	70,000 b/d

1951 and 1952 Construction: Forecast pumpings for 1951 and 1952 were in excess of the above capacities. To enable the Company to handle this additional throughput, five additional pumping stations, located at Hardisty, Alberta, Loreburn and Glenavon, Saskatchewan, Glenboro, Manitoba and Viking, Minnesota, were constructed in 1951 and 2,600,000 additional barrels of storage capacity was added at Superior, Wisconsin in the same year. In 1952 the Company constructed a second line in sections of its existing right-of-way between Regina and Gretna, consisting of 100 miles of 16" pipe laid in four sections (loops) and installed an additional engine at each of the Hardisty and Loreburn pumping stations. A new station (the twelfth) was constructed at Deer River, Minnesota and 651,000

additional barrels of storage capacity was added at Superior. (An additional 2,600,000 barrels of storage capacity at Superior had been planned, but due to a steel strike was not completed by the opening of navigation in 1953. The erection of this additional tankage was subsequently cancelled when the decision was made to construct the pipe line extension from Superior to Sarnia, Ontario.) The total plant additions resulting from the 1951 and 1952 construction program were completed at a cost of $20,731,000 and resulted in the following yearly average capacities:

Edmonton to Regina	153,000 b/d
Regina to Gretna	116,300 b/d
Gretna to Superior	109,000 b/d

1953 Construction: It became apparent by this time, that crude requirements east of Superior were growing to a magnitude that would justify the extension of the pipe line from Superior to Sarnia. Since the pipe line was to traverse a distance of 645 miles through difficult country, extensive studies had to be made. These studies were made both by Company personnel and independent experts and form the basis of the Company's expansion plans to this day and for the foreseeable future. They not only resulted in the construction of the Superior to Sarnia extension, but also initiated a program of planned stepwise expansion of the Company's Edmonton to Superior system. The extended and expanded system

was to be of sufficient capacity to allow pumping rates of 300,000 barrels per day out of Superior, as well as deliveries to Saskatchewan, Manitoba and the Lakehead area of 128,000 barrels per day. To deliver 300,000 barrels per day east of Superior and 128,000 barrels per day between Edmonton and Superior, plans were adopted for the construction, in stages, of a second line (loops) on the Company's existing right-of-way from Edmonton to Superior and a 30" line from Superior to Sarnia. The second line from Edmonton to Gretna was to be 24" and from Gretna to Superior was to be 26".

The 1953 construction program consisted of the installation of the 30" Superior to Sarnia line with one pumping station at Superior. In addition, 133.7 miles of 24" pipe line (in four loops) was completed between Regina and Gretna and additional engines were installed at each of the Viking, Clearbrook and Deer River stations. The total cost of these projects was $80,008,000 and resulted in the following yearly average capacities:

Edmonton to Regina	170,300 b/d
Regina to Gretna	140,900 b/d
Gretna to Superior	120,100 b/d
Superior to Sarnia	110,000 b/d

1954 Construction: Anticipated new Minnesota and Michigan markets necessitated a great portion of the 1954 construction. Additional sections of the

second 24" line were laid between Edmonton and Regina (in four loops) and between Regina and Gretna (in five loops), and sections of the second 26" line were laid between Gretna and Superior (in four loops). Station additions which would eventually be used for the second line were completed at the Regina, Glenavon, Cromer, Glenboro, Gretna, Viking, Clearbrook and Deer River pumping stations, and a second pumping station was installed on the Superior/Sarnia line at Saxon in Wisconsin. Additional tankage was constructed at the Edmonton, Regina, Cromer and Gretna pumping stations. The cost of the 1954 construction was $52,030,000 and resulted in the following yearly average capacities:

Edmonton to Regina	217,000 b/d
Regina to Gretna	191,600 b/d
Gretna to Superior	162,400 b/d
Superior to Sarnia	147,200 b/d

1955 and 1956 Construction: The only major construction carried out in 1955 was the initial work on a program to convert the Cromer station to a major terminal to receive crudes from the newly discovered oil fields in Manitoba and southeast Saskatchewan. In the latter part of 1955 the Board of Transport Commissioners authorized Westspur Pipe Line Company to construct a line to Cromer from the area of these extensive new fields to the south. Interprovincial consequently started construction of additional tankage

and facilities at this site in the fall of 1955, work being completed in the following year.

Market growth forecast for 1957, particularly in Ontario, necessitated most of the 1956 construction. 67.3 miles of 24" pipe line (in two loops) were completed between Regina and Gretna and 52.2 miles of 26" pipe line (in two loops) were completed between Gretna and Superior. One additional engine was installed in the Cromer pumping station and this station, with the construction of 568,000 additional barrels of storage capacity became a major terminal for receiving Saskatchewan and Manitoba crude oil. A third pumping station was installed on the Superior/Sarnia line at Indian River in Michigan. The cost of the 1955 and 1956 construction program was $10,921,000 and resulted in the following yearly average capacities:

Edmonton to Regina	217,000 b/d
Regina to Gretna	268,900 b/d
Gretna to Superior	230,400 b/d
Superior to Sarnia	208,800 b/d

1957 Construction: Another major step in the Company's history was taken in 1957 with the construction of a 156 mile extension of its pipe line from Sarnia to the Clarkson/Port Credit refining area lying immediately west of Toronto, Ontario. This line, 20" in diameter, will, with the addition of a second pumping station, have an ultimate capacity of 185,000 barrels per day or sufficient to supply all foreseeable

crude oil needs of the Toronto area. The extension project included the construction of a pumping station and 480,000 barrels of additional storage at Sarnia.

In addition 32.6 miles of 24" pipe line (in two loops) were completed between Regina and Gretna and 78.4 miles of 26" pipe line (in three loops) were completed between Gretna and Superior. The construction of these loops gives the Company a complete second line from Regina to Superior. Also additional engines were installed at each of the Regina, Glenboro, Gretna, Viking and Clearbrook pumping stations and a fourth pumping station is under construction on the Superior/Sarnia line at Gould City, in Michigan.

The total cost of the 1957 construction program is estimated at $23,739,000, and resulted in the following yearly average capacities:

Edmonton to Regina	235,000 b/d
Regina to Gretna	326,500 b/d
Gretna to Superior	352,400 b/d
Superior to Sarnia	232,000 b/d
Sarnia to Port Credit	109,000 b/d

General: Expenditures in plant additions from 1951 to 1957 have amounted to $187,429,000 (includes estimated total cost to complete 1957 construction program), which added to the initial 1950 plant costing $73,117,000 amounts to a total expenditure in plant of $260,546,000 (includes estimated total

cost to complete 1957 construction program).

OPERATIONS

The description of Interprovincial's operations which follows begins with the receipt of crude oil into the pipe line system from the various oil gathering sources and proceeds with the movement of crude oil through the system to destination. The route of the Interprovincial system is shown in Appendix "A".

Receipt of oil: The receipt of oil by Interprovincial in Alberta only will be described as the same procedure applies at all other points. There are nine gathering systems in Alberta delivering oil to Interprovincial - two at Redwater, one at Excelsior, five at Edmonton and one at Hardisty. The oil is gauged into tankage at Redwater, Excelsior, Edmonton and Hardisty and custody is accepted from the gathering systems at these points on an accounting form termed a "Receipt Ticket" showing the tank gauges (depth of oil in the tank), temperatures and gravities and B S & W (Basic Sludge and Water) determinations observed by representatives of both the gathering system and Interprovincial and signed for by them. B S & W is deductible to give the net volume of crude oil received and must not exceed 0.5%. From this information the accountants calculate the volume of oil received. The oil from Redwater and Excelsior is pumped to the Edmonton pumping station either into the line

moving eastward or into tankage. A quantity of Redwater oil is also delivered directly out of the Redwater to Edmonton portion of the line into tankage on the Trans Mountain Oil Pipe Line Company pumping station. In the past Redwater oil has also been delivered to refineries at Edmonton but none is being so delivered at the present time.

Delivery of oil: Deliveries are made in much the same manner as receipts, with representatives of both the delivering and receiving companies concerned witnessing tank gauges, temperatures, gravities and B S & W determinations and signing the tickets which are then sent to the Accounting Department for computation of volumes.

Main line operation: There are six types of crude oil received at Edmonton today:

Redwater

Leduc

Britamoil

Pembina

Ellerslie

Joarcam

and three streams pumped out:

Redwater

Leduc (includes Pembina-Joarcam)

Mixed Blend (Britamoil-Pembina-Ellerslie)

The mixture termed "Mixed Blend" is made up in predetermined proportion, controlled by special

instruments regulating the rate at which the oil is pumped from several tanks so that the composition of the stream pumped into the main line will, within certain limitations, be uniform.

When Interprovincial first went into operation the system was comparatively simple with one booster station at Kerrobert only required to give sufficient movement to the oil to reach Regina. Three stations only were required to move the oil between Regina and Superior, which was at that time the eastern terminal of the line. Crude oil was shipped out by tanker from Superior in summer to refineries at Sarnia and Clarkson, Ontario. During the winter sufficient oil was stored in tankage at Superior to supply the summer demand of the above refineries which was greater than the then capacity of the pipe line.

Since that time the system has grown in four different ways:

1. Intermediate stations have been added.
2. The pumping capacity of existing stations has been increased.
3. Loops, or parallel pipe lines, have been laid in the existing right-of-way.
4. The line has been extended first to Sarnia and then to Toronto.

Appendix "A" shows the principal features of the system as it exists today. Also listed thereon are the Receipt points and the Delivery points throughout the entire system. Receipt and Delivery Tickets are made out at each point in the manner already

described for Alberta.

Dispatching: In order to deliver the desired amount of the right type of oil at the right time to keep the refineries in continuous operation, a great deal of planning is necessary. The amount of oil required must be in the pipe line passing the delivery point at the right time and the volume going through the pipe line system will govern the time at which the oil will be received at its destination. The procedure of pumping quantities of different types of oil into the line one after the other is called "batching". Under normal conditions there is little intermingling between the tail of one batch of oil and the head of the next so the type of oil each refinery requires is delivered to it reasonably free from contamination. Refineries are designed to produce a given proportion of various refined products to definite specifications and have limited flexibility in use of crudes of other types than that for which they were designed. For example, some refineries are not equipped with extensive sulphur removal systems hence they cannot accept a crude with a high sulphur content nor can they usually tolerate appreciable contamination of the crude delivered to them by crudes of another type.

The following companies are the principal crude oil purchasers:

(a) Imperial Oil Limited

(b) British American Oil Co. Ltd.

(c) Texaco Exploration Co.

(d) Great Northern Oil Purchasing Co.

Each month the Company's Chief Dispatcher prepares the pumping schedule for the following month based upon the tenders for that month received from the various shippers. This schedule establishes the rate of pumping not only out of Edmonton but also out of every other point along the system at which oil is received. It also provides for the right type of oil being delivered to each refinery at the right time and in the amount required. At the present average rate of pumping approximately forty-five days are consumed for oil to travel from Edmonton to Port Credit, making it necessary for all concerned to plan well ahead.

Under today's conditions scheduling has become a very complicated and complex operation. The requirements of refineries change at short notice for many reasons and market demands vary with any material departure from normal weather or seasonal conditions.

Communications: Every pumping station and delivery point is connected with Edmonton office by teletype, thus tending to eliminate mistakes and misunderstandings. The stations report operating conditions every hour and, those with tankage, their stock position every two hours. A mobile radio system maintains

close contact with maintenance men and supervisors while travelling.

Mechanical maintenance: Mechanical maintenance on equipment is carried out on a planned schedule, usually referred to as "Preventive Maintenance". From information given by the manufacturers and from past experience, the rate of wear, among other things, can be gauged and the wearing parts inspected and replaced if necessary. Involuntary shutdowns are thus reduced.

In planning the Maintenance Schedule consideration must be given to the Pumping Schedule to prevent interference with the movement of oil. In the majority of pumping stations a spare pumping unit permits one pumping unit at a time to be shut down for maintenance.

Pipe line maintenance: The pipe line right-of-way is patrolled by aircraft at frequent intervals, principally to prevent road equipment, drilling rigs or other excavating machinery from working over the right-of-way and jeopardizing the pipe line itself. Determination of pipe line leakage is a remote occurrence. At the present stage in the life of the pipe, pinhole leaks from corrosion of the metal are not to be expected and the leaks from other causes have been relatively minor and infrequent. The right-of-way itself must be kept in good condition and any soil erosion at thaw-out or from heavy rain must be

repaired promptly to prevent the pipe line becoming undermined and breaking from lack of support.

Maintenance crews, small in number but consisting of men highly trained in the use of pipe line repair equipment and including an expert welder, are located at approximately 200-mile intervals down the line. In the case of large jobs, two or more crews can be combined.

The aircraft used to patrol the line in Canada are of a rugged character, slow landing and high powered for quick take-off, with a carrying capacity of five men and the pilot. Key men can, therefore, be moved quickly along the right-of-way as there are landing strips at each station and usually a suitable field close to the pipe line.

Communication with the pipe line crews and with key personnel in transit along the right-of-way is maintained by radios from radio towers at each pumping station. Messages are teletyped to the nearest station and then sent on by radio. The antennae are direct to beam down the right-of-way to obtain the best reception possible in the area travelled by maintenance personnel. Aircraft are equipped with radios of the same wave length so that the pilots are in constant contact with the repair crews and pumping stations.

Line fill: The line fill and oil required for tankage for the whole system today amounts to the

substantial total of 10,000,000 barrels. The line fill is owned by the shippers and furnished by them in volumes proportionate to each shipper's use of the line. Interprovincial thus has no ownership in the line fill oil but merely retains it in its custody during transportation.

Power to move oil: All but two of Interprovincial's pumping stations are powered by diesel engines using either crude oil as fuel or a combination of natural gas and crude oil. The remaining two are electrically driven; one of them at Indian River, Michigan, being remotely controlled from Superior. The electric pumping station at Sarnia, however, employs one operator on shift.

Personnel: The number of personnel at each pumping station varies from approximately twelve at the smaller stations to twenty at the larger stations. As the pumping stations are up to one hundred miles apart, it will be readily recognized that these widely spaced small work forces create personnel problems that do not normally arise when the work force is concentrated at one or more larger points.

Crossing international boundaries: The movement of crude oil through the Interprovincial system is uninterrupted by the crossing of international boundaries. As is shown on Schedule "A" the pipe line enters the United States in North Dakota and re-enters Canada near Sarnia. At these points there are no

measuring devices or breakout tankage - the flow is continuous. Any necessary Customs formalities take place at the locations where the oil leaves the system either in the United States or Canada.

The difference in the approach to transmission of gas and oil and the reasons therefor: There is one basic difference in the transmission of gas and petroleum by pipe line. Gas pipe lines are common purchasers of their product whereas oil pipe lines in practically every instance either are or conduct their business as common carriers.

As a crude oil pipe line operator Inter-provincial does not profess to have any intimate know-ledge of the operations of a gas trunk transmission line. There is, however, one feature wherein we be-lieve the operations are very different. Gas, as we understand it, is a common stream product and it is immaterial to the final distributor or ultimate user where the gas originates inasmuch as there are very few stipulations as to quality, the principal ones being the moisture content and the B.T.U. content.

Quite the contrary is the situation that confronts the crude oil pipe line operator. In the first place he carries his shipment, not to a final consumer or distributor but to a refiner. The crude oil must then be processed before final distribution or sale to the ultimate consumer. With various types of crude oil and products being transported through

the pipe line it is important that the shipper receive essentially the same product that he tenders to the pipe line. Crude oils yield different products in varying degrees and at the same time refinery equipment is quite often designed to handle a particular type of crude. It would, therefore, be completely impracticable for a refiner to receive and attempt to run in his refinery a crude which would be incompatible with his marketing requirements or refining equipment.

If a pipe line company were to attempt to operate in such a manner as to supply all shippers and/or refiners at any given point on the line at any given time with indefinite quantities of all the various types of crude carried, it is quite obvious that tremendous inventories far out of proportion to the normally required stock would have to be retained on hand. This would result in millions of dollars being invested in a slow moving inventory as well as in excessive tankage and other related facilities. The pipe line company's only alternative to eliminating inventories of this magnitude and the attendant tankage and facilities would be for the pipe line to handle a single common stream of oil which would be a mixture of all types of crude received from various fields. Under these conditions it is very easy to realize the picture that would confront refiners in that they would experience many technical difficulties in manufacturing

a uniform and high quality product. Because the first of these procedures is obviously economically impractical and the second is highly undesirable from an operating point of view it has become the common practice for shippers to tender exactly the type of crude which they desire to have delivered at the designated delivery point and for the pipe line company to operate as a carrier only.

This raises the question of line fill. To operate efficiently the pipe line must be full of oil at all times. Since the shippers want the crude they ship to be delivered at the delivery point on schedule there must be crude of that grade in the line - Leduc crude shipped from Edmonton cannot be delivered at Clarkson until the oil ahead of it in the line has been delivered. Therefore, the whole history of oil trunk lines has been for the shippers to own the line fill. Thus by proper scheduling and dispatching when a 100,000 barrel batch of Leduc is shipped by a shipper from Edmonton that shipper may immediately have the same amount of the same quality oil delivered to him at Clarkson. It is true that he has substantial sums of money tied up in inventory, but on the other hand he enjoys a much more workable system for getting a particular grade of crude to the desired delivery point at the time it is needed than he could have if the pipe line company owned the line fill. Further, the shipper really loses

nothing by supplying the line fill, because if the pipe line company supplied it, it would mean a substantial additional item to be included in the rate base, and the tariff of carrying charges would have to be increased accordingly.

FINANCIAL STRUCTURE AND HISTORY

Original financing: The cost of the original pipe line system, including the portion in the United States, was estimated at $85,000,000. A further $5,000,000 was required for working capital, making a total of $90,000,000. Of this amount 20% was raised through the sale of capital stock and convertible debentures and 80% through the sale of First Mortgage and Collateral Trust Bonds.

The securities sold were those of Interprovincial Pipe Line Company. Lakehead Pipe Line Company, Inc. obtains the money it requires from Interprovincial.

CAPITALIZATION

(Upon completion of the original financing)

	Authorized	Issued
First Mortgage and Collateral Trust Bonds --		
Series A, 3½% due January 1, 1970 payable in Canadian funds - - - - -	$37,000,000	$37,000,000
Series B, 3½% due January 1, 1970 payable in United States funds - -	35,000,000	35,000,000
Total - - - - - - -		72,000,000
Convertible Debentures --		
4% Convertible Sinking Fund Debentures, Series A, due October 1, 1970	25,000,000	17,000,000
Capital Stock --		
Authorized - 4,000,000 shares having a par value $50 each,		

of which 340,000 shares were reserved for conversion of debentures - - -	200,000,000	
Issued - 20,012 shares -		1,000,600
		$90,000,600

The first 10,000 shares of stock were purchased by Imperial Oil Limited in August 1949 at par $50 per share. Except for 12 qualifying shares sold to directors in 1949, Interprovincial remained a wholly owned subsidiary of Imperial Oil Limited until October 1949 when a further 10,000 shares were sold privately at par $50 per share as follows:

Canadian Gulf Oil Company	2,000 shares
Canadian Oil Companies Limited	1,000
Montreal Trust Company	7,000
	10,000

A further 16 qualifying shares were sold to directors in 1950 and 1952.

The $17,000,000 convertible debentures were sold in October 1949. A total of $9,500,000 were sold privately at par as follows:

	Principal Amount
Imperial Oil Limited	$5,500,000
Canadian Gulf Oil Company	1,700,000
Canadian Oil Companies Limited	850,000
Montreal Trust Company	1,450,000
	$9,500,000

THE CHAIRMAN: Where did the Montreal Trust Company come in on that?

MR. JOHNSTON: At the time it was expected there might be another oil company interested in the participation of Interprovincial and a certain amount of stock was put aside; subsequently that did not develop and the stock was sold by Montreal Trust Company.

The remaining $7,500,000 were sold to a syndicate of investment dealers at $98.25. The

syndicate subsequently disposed of the debentures to approximately 5,500 individuals and corporations at par. Each $100 debenture was convertible into two shares of $50 par value stock.

MR. FRAWLEY: May I interrupt you: did you say the Montreal Trust Company bought or sold? I did not quite get what you said to the Chairman.

MR. JOHNSTON: They bought it and subsequently disposed of it.

MR. FRAWLEY: That is not the picture at the moment: Historically that is what happened?

MR. JOHNSTON: Yes.

The First Mortgage and Collateral Trust Bonds were sold privately to 49 institutional investors in 1950 pursuant to Purchase Agreements entered into in October 1949. The Series A Bonds were sold at par plus accrued interest and the Series B Bonds were sold at a premium of 1.81% plus accrued interest.

The Bonds were issued under the terms of a Mortgage and Deed of Trust (the Mortgage) dated as of October 1, 1949 between the Company and The Royal Trust Company, as Trustee (the Trustee), by virtue of which:

(1) a first, fixed and specific mortgage and charge was created upon all the Company's real estate, rights-of-way and other immovable properties and rights, and its fixed plant and equipment;

(2) a first, fixed and specific mortgage, pledge

and charge was created upon all first mortgage bonds and shares of stock issued by Lakehead; and

(3) a first floating charge was created upon all other property and assets of the Company and its undertaking, subject, however, to provisions designed to permit borrowings from and the giving of security to the Company's bankers and others in the ordinary course of business.

The Bonds were further secured by a Throughput Agreement between the Company and Imperial Oil Limited (Appendix "C") and by a further agreement known as the Three Party Agreement (Appendix "D") under which Imperial Oil Limited guaranteed the payment of interest and principal.

In accordance with the terms of the Mortgage, the proceeds from the sale of the debentures and bonds were deposited with the Trustee. These funds were specifically designated for the construction of the original pipe line system, as defined in the Mortgage, and could be used for no other purpose until the original pipe line system was completed. The Mortgage further stipulated that the debenture moneys were to be exhausted before the bond moneys could be withdrawn.

A total of $5,000,000 of the debenture moneys was immediately turned over to the Company upon its written request, as provided in the Mortgage. These funds, together with the proceeds from

the sale of capital stock, were used to acquire physical assets which were immediately brought under the lien of the Mortgage and used to withdraw further funds from the Trustee. These withdrawals were made by means of property addition certificates which were filed with the Trustee, as provided for in the Mortgage. The Lakehead securities purchased by Interprovincial were deemed to be property additions and as such were included in the certificates along with the physical properties located in Canada. Reimbursement was on the basis of actual cost.

The Mortgage further provided that when the original pipe line system was completed the balance of the moneys on deposit in the Pipe Line Construction Fund, if any, could be used within a period of three years to increase the capacity of the pipe line system. Failing this the funds were to be used to redeem Series A and B Bonds. A balance did remain in the Pipe Line Construction Fund upon completion of the original pipe line system and these moneys were in fact used in 1951 and 1952 to increase the capacity of the system.

The original construction program in the United States was financed by Interprovincial purchasing the following securities from Lakehead in 1949 and 1950:

	U.S. Cy.
Capital Stock -	
4,020 shares, $50 par value	$ 201,000
4% Demand Notes	5,200,000
First Mortgage Pipe Line Bonds -	
3½% Series due January 1, 1970	14,250,000
Total	$19,651,000

A further $4,500,000 Lakehead 3½% 1970 Series Bonds were purchased on May 28, 1951.

The Lakehead securities are all specifically pledged with the Trustee under the Interprovincial Mortgage. In effect this means that the Interprovincial bonds are secured by the physical properties located in the United States as well as the physical properties located in Canada.

1953 financing: Late in 1952 a decision was made to extend the pipe line system from Superior, Wisconsin to Sarnia, Ontario and to increase the capacity of the existing system. The cost was estimated at $86,000,000. Such an expenditure required a certain amount of equity financing as well as the raising of further capital through the sale of bonds. As a preliminary step to this financing it was decided to call the outstanding debentures and subdivide the capital stock on a 10 shares for 1 basis.

The debentures were called December 12, 1952 for redemption January 15, 1953 and a petition was made to Parliament to amend the Company's Special Act of Incorporation.

By January 15, 1953 all but $18,000 principal amount of the debentures had been converted to capital stock. The holders of the remaining $18,000 were subsequently located and as there appeared to be a valid reason in each case for their failing to convert, they were allowed to purchase the same number of shares as they would have received had they converted their debentures to stock. The amount paid for such stock was the same amount as they received for their debentures upon presenting them for redemption.

On February 11, 1953 Royal Assent was given to a Special Act of Parliament (1952-53-C.66) amending the Company's Special Act of Incorporation and subdividing the capital stock of the Company into shares of the par value of $5 each. Immediately thereafter the new stock was listed on the Toronto and Montreal stock exchanges.

The equity financing referred to earlier took the form of a Rights offering to existing shareholders. A total of 1,439,552 shares were offered to shareholders of record February 27, 1953 at the rate of two new shares for each five shares held at a price of $18 per share. All shares offered were sold and a total of $25,911,936 was realized.

The balance of the required funds was raised through the sale by Interprovincial of $60,000,000 First Mortgage and Collateral Trust Bonds, 4% Series C, due April 1, 1973. These bonds were sold privately

to 37 institutional investors in 1953 pursuant to Purchase Agreements dated February 27, 1953.

As the major portion of the extension was to be constructed in the United States, it was necessary to furnish Lakehead with further funds in 1953. Before this could be done, however, Lakehead had to repay the $5,200,000 advanced it on demand notes. Interprovincial enabled Lakehead to redeem these notes in December 1952 by purchasing a further 95,980 shares of Lakehead stock and $2,250,000 principal amount Lakehead, 3½% Second Series First Mortgage Pipe Line Bonds due January 1, 1970.

The Company then proceeded to purchase a further 300,000 shares of Lakehead's $50 par value stock and agreed to purchase sufficient Lakehead bonds to cover the balance of the cost of the United States construction program. A total of $55,000,000 Lakehead First Mortgage Pipe Line Bonds, 4% Third Series due March 25, 1973 were purchased in 1953. These bonds together with the stock were immediately pledged with the Trustee.

The $60,000,000 4% Series C Bonds that were sold by Interprovincial in 1953 were issued under the terms of the original Mortgage as supplemented and amended. The proceeds were accordingly deposited with the Trustee and withdrawn by means of Net Property Additions Certificates.

The sale of the Series C Bonds was

facilitated by an undertaking given by Imperial Oil Limited on April 1, 1953 (Appendix "E"). In this undertaking, which remains in force as long as any of the Series C Bonds are outstanding, Imperial agrees that to the extent it causes crude oil from Alberta, Saskatchewan or Manitoba to be transported to Sarnia, it will tender such crude oil to Interprovincial for transportation through the pipe line system to Sarnia.

---A short recess.

THE CHAIRMAN: Gentlemen, the Commission will resume its hearing.

MR. JOHNSTON: 1954 financing: The expansion program undertaken in 1954 called for further financing. An additional $30,000,000 appeared to be required and this amount was raised through the sale by Interprovincial of $30,000,000 First Mortgage and Collateral Trust Bonds, 3 5/8% Series D, due April 1, 1974. The Series D Bonds were issued under the terms of the original Mortgage, as supplemented and amended, and sold privately to 25 institutional investors at $100.354 per $100 principal amount plus accrued interest. The proceeds were accordingly deposited with the Trustee and withdrawn by means of Net Property Additions Certificates.

A further $5,000,000 Lakehead 4% Third Series, First Mortgage Pipe Line Bonds were purchased by

Interprovincial in 1954 together with $8,000,000 Lakehead 3 5/8% Fourth Series Bonds, due March 25, 1974.

No further financing has been required. The construction programs undertaken in 1955, 1956 and 1957 were financed from the cash resources of the Company.

Capitalization as at December 31, 1957

INTERPROVINCIAL PIPE LINE COMPANY
(Consolidated)

Long Term Debts:

First Mortgage and Collateral Trust Bonds - Authorized - no fixed limitation

	Issued	Redeemed	Outstanding	
Series A-3½% due January 1, 1970 payable in Canadian funds -	$ 37,000,000	$ 6,657,000	$ 30,343,000	
Series B-3½% due January 1, 1970 payable in United States funds - - - - -	35,000,000	5,554,000	29,446,000	
Series C-4% due April 1, 1973 payable in United States funds - -	60,000,000	3,332,000	56,668,000	
Series D-3 5/8% due April 1, 1974 payable in United States funds - -	30,000,000	850,000	29,150,000	
	$162,000,000	$16,393,000	$145,607,000	68.6%

Capital Stock and Retained Earnings:

Capital Stock

Authorized - $200,000,000 divided into 40,000,000 shares - $5 par value

Issued - 5,056,533	-$25,282,665		
Premium on shares - -	19,079,846		
Retained Earnings - -	22,268,332	66,630,843	31.4%
Total Capitalization - - - -		$212,237,843	100.0%

Note: The First Mortgage and Collateral Trust Bonds payable in United States funds are recorded in the books of account in terms of Canadian currency at the rate of exchange in effect on date of issue. For purposes of this statement, however, they have been shown at par.

Operating statements 1951-1957 (inc.)

The operating and financial results for the years 1951 to 1957 inclusive are summarized in Appendix "F" hereto.

Capital stock - principal shareholders and distribution as at December 31, 1957: As at December 31, 1957 the outstanding capital stock of Interprovincial Pipe Line Company was held as follows:

(See next page for table)

Name	Number of Shares held	Per cent
Imperial Oil Limited - - -	1,680,000	33.22%
The British American Oil Company Limited - - - -	360,000	7.12
Canadian Oil Companies Limited - - - - - - - -	100,000	1.98
Total held by oil companies - - - - - -	2,140,000	42.32%
Others - all less than 100,000 shares -	2,916,533	57.68
	5,056,533	100.00%

	Shareholders	Shares	Percent
Canada - - - - - - - - - -	9,938	3,981,098	78.73%
United States - - - - - - -	1,888	1,008,373	19.94
Other countries - - - - -	140	67,062	1.33
	11,966	5,056,533	100.00%

Employees Incentive Stock Option Plan: In April, 1954, the Company asked for and secured the sanction of the shareholders to initiate an Employees Incentive Stock Option Plan whereby at the discretion of the Board of Directors unissued shares of the capital stock of the Company might be optioned to key employees. As far as Directors are concerned, their participation was limited to those who were or might be full time employees. The shareholders approved the granting of a total of 50,000 shares of Company stock under this Plan which represented slightly less than 1% of the outstanding stock at that time.

Under the Plan stock options may be granted from time to time with the provision that they be exercised in full or in part up to April, 1964. The option price has been designated as the

closing price on the Toronto Stock Exchange the day the options are granted.

Between April 1954 and January 1, 1958, 42,800 shares of the allowable total had been granted to full time key employees, leaving a balance of 7,200 shares which may be optioned at the Board's discretion between the present time and the expiration of the option period.

The underlying purpose of the Stock Option Plan was to provide some measure of future financial security for key employees who might not be able to be be so compensated under today's heavy tax conditions. It was also intended that younger employees -- particularly those with professional degrees -- having a personal stake in the Company might thus be encouraged to remain in the employ of the Company and at the same time implement their interest in their respective positions.

ECONOMIC ASPECTS

Tariff structure and history: Interprovincial and its wholly owned United States subsidiary Lakehead Pipe Line Company, Inc. are engaged exclusively in the transportation of crude petroleum by pipe line at established tariffs.

ESTABLISHMENT OF FIRST TARIFF RATES: The rates per barrel that were established in the first instance were based on the assumption that the original pipe line system from Redwater to Superior

would cost $85,000,000. They were specifically calculated to produce a reasonable return on this investment at the initial as well as future throughputs. This was considered essential in view of the risks involved.

Crude oil pipe lines are very costly and perform only one function -- the transportation of oil for account of others from established producing areas to established markets. They assist materially in developing new markets but they are not masters of their own destiny. Their economic life is entirely dependent on the life of the oil fields they serve and the demand for this crude. The discovery of oil closer to the markets served, or the sudden depletion of reserves in the oil fields to which they are connected, can be disastrous. As an example, one has only to examine the experience of Interstate Oil Pipe Line Company and Ajax Pipe Line Company in the United States.

Interstate Oil Pipe Line Company constructed a pipe line from Tulsa, Oklahoma to the Gulf of Mexico which was the logical outlet for Oklahoma crude. This line became inactive when oil was discovered in the Gulf area. Looking for an alternative market for Oklahoma crude, the Ajax system was built from Tulsa to Illinois. The capacity of the sytem was approximately 80,000 barrels per day and the operation was extremely successful until oil was discovered

in Illinois. With this discovery that line too became inactive. Both lines were used during World War II but since then have remained relatively inactive.

Interprovincial published its first tariffs November 10, 1950 as follows:

Rates in cents (Canadian currency) per barrel

Delivery Points	From Redwater	From Edmonton
Edmonton, Alberta	3½	-
Rosetown, Saskatchewan	21	19
Moose Jaw, Saskatchewan	28½	26½
Regina, Saskatchewan	31	29
Souris, Manitoba	41	39
Gretna, Manitoba	46	44
Superior, Wisconsin	56	54

Tanker loading charge at Superior - 3½¢ per barrel.

These rates were made up of a fixed basic charge per barrel plus an additive based on mileage. When a barrel of oil is tendered to a pipe line company for shipment certain basic expenses are immediately incurred by the company and these expenses remain constant whether the oil is shipped ten miles or one thousand miles. Expenses incurred in receiving, gauging, storing preparatory to shipping and making the necessary accounting entries are a few examples of such expenses. Practically all these expenses are repeated when the oil is delivered out of the system. It was to cover these inherent costs that the fixed basic charge per barrel was used as a component of the total charge.

The additive was arrived at by multiplying

the barrel mile factor (a fraction of a cent per barrel) by the number of miles involved in the specific movement. The barrel mile factor was derived by first calculating the required annual revenue; deducting from this amount the revenue the basic charge would produce; and dividing the balance by the number of barrel miles (one barrel mile equals one barrel of oil transported one mile) that the estimated throughputs from each receiving point to each delivery point would produce. The required annual revenue was the amount required to meet all operating expenses, service the debt, provide for depreciation and realize a reasonable profit after providing for income taxes. The results of these calculations were then plotted as a graph from which a tariff curve was developed.

It is obvious that when a fixed basic charge is included as a component of the total charge the average rate per mile is higher for short hauls than for long hauls. This was reflected in the tariff curve and also in the Company's first tariffs and is in accordance with accepted principles used in establishing tariffs for pipe lines.

The discovery of oil in Manitoba led to the installation of receiving facilities at Cromer, Manitoba and the publishing of rates on September 20, 1952 as follows:

	Rates per barrel
Cromer to Souris	$5\frac{1}{2}$¢
Gretna	13
Superior	32

REDUCTION OF TARIFF RATES, 1952: The tariffs previously listed remained in effect until October 15, 1952, when in the light of increased throughputs and the fact that the original pipe line system had been completed at a cost of $72,000,000 (estimated $85,000,000), the basic rates from Redwater and Edmonton to Superior were reduced by 10¢ per barrel with proportionate reductions (approximately 17%) in all other rates. The only exception was the rate from Redwater to Edmonton. This rate remained at $3\frac{1}{2}$¢ per barrel until July 1, 1953 when with the advent of deliveries to Trans Mountain Oil Pipe Line Company it was reduced to 2¢ per barrel.

Rates from all established receiving points to a new refinery at Wrenshall, Minnesota were published on October 15, 1952. The rates quoted were identical to Superior.

TARIFFS TO SARNIA, ONTARIO: When the extension to Sarnia was conceived it was recognized that the Company would be obliged to meet tanker competition. Therefore, the rates to Sarnia were set at 20¢ per barrel higher than corresponding rates to Superior and published on July 1, 1953.

ADJUSTMENT OF TARIFFS FOR SHORT HAULS, 1955: The tariffs that were established in the first

instance were based on the assumption that most, if not all, of the oil that Interprovincial would be called upon to transport would be tendered at Redwater or Edmonton and that most of it would be consigned to Superior. Towards the end of 1954, however, it became apparent that substantial quantities would be tendered at Cromer, which would reduce the length of the average haul, and that additional receiving points would have to be established. The effect of these changing conditions was examined and it was determined that the established short haul rates were not producing their fair share of the total revenue. A minimum charge of 8¢ per barrel for the first 100 miles, with increases by broad steps, appeared to be indicated and this method of establishing tariffs was adopted on January 1, 1955. The rates from Cromer were adjusted to this basis but all other established rates were left unchanged.

ADDITIONAL CHARGE FOR HEAVIER CRUDES:

The Interprovincial pipe line system was designed to transport light gravity crude petroleum, such as Redwater. If heavier crudes (more viscous) were also to be transported the designed capacity could only be maintained by the installation of additional and expensive facilities. The Company was quite prepared to make these modifications but felt that the shippers of the heavier crudes should bear the extra expense.

Accordingly, when it became apparent that heavier crudes would be tendered for transportation, the established rates were specifically limited to light gravity oil and an additional charge for heavier crudes was initiated. This was done on July 16, 1956.

TARIFF RATES PRESENTLY IN EFFECT: The rates per barrel presently in effect are as follows:

Rate in Cents per Barrel for Light*
Crude Petroleum
(*Having an A.P.I. Gravity in Excess of 30° at 60° Fahrenheit)

Delivery Points	From Redwater	From Edmonton	From Hardisty
Edmonton, Alberta	2	-	-
Milden, Saskatchewan	18½	16½	12
Moose Jaw, Saskatchewan	23½	21½	18
Regina, Saskatchewan	25½	23½	20
Souris, Manitoba	34	32	28
Gretna, Manitoba	38	36	32
St. Paul, Minnesota	46	44	-
Wrenshall, Minnesota	46	44	41
Superior, Wisconsin	46	44	41
West Branch, Michigan	61½	59½	56½
Bay City, Michigan	63	61	58
Sarnia, Ontario	66	64	61
Clarkson, Ontario	74	72	69
Port Credit, Ontario	74	72	69

Delivery Points	From Kerrobert	From Regina	From Cromer
Edmonton, Alberta	-	-	-
Milden, Saskatchewan	8	-	-
Moose Jaw, Saskatchewan	12	-	-
Regina, Saskatchewan	16	-	-
Souris, Manitoba	24	16	8
Gretna, Manitoba	28	20	12
St. Paul, Minnesota	38	-	28
Wrenshall, Minnesota	38	32	28
Superior, Wisconsin	38	32	28
West Branch, Michigan	53½	47½	43½
Bay City, Michigan	55	49	45
Sarnia, Ontario	58	52	48
Clarkson, Ontario	66	60	56
Port Credit, Ontario	66	60	56

Tanker loading charge at Superior - 3½¢ per barrel.

The extension of the pipe line system to Port Credit again brought Interprovincial into competition with the tanker trade. The pipe line tariffs were therefore published on July 1, 1957 at 8¢ per barrel higher than the corresponding rates to Sarnia.

The joint rates to delivery points in the United States and Ontario are payable 47% in Canadian currency and 53% in United States currency. Prior to January 1, 1956 the rates were all payable in Canadian currency. This change was made to assure the Company of a continuing supply of United States dollars with which to service its United States dollar debt and meet its operating expenses in that currency.

JOINT TARIFFS WITH OTHER CARRIERS: Rates quoted to St. Paul are joint rates with Minnesota Pipe Line Company. They were first published on June 1, 1955, and are identical to rates quoted to Wrenshall and Superior. This was done to enable Canadian crude oil to compete with American crude in the St. Paul market.

Interprovincial and Lakehead have also entered into the following joint tariffs for the transportation of medium gravity crude petroleum:

	From	To	Joint Rate per barrel	Published by	Other concurring Carrier
(1)	Cantuar Station, Sask.	St. Paul, Minn.	69¢	South Saskatchewan Pipe Line Company	Minnesota Pipe Line Company
(2)	Cantuar Station, Sask.	Clarkson, Ont.	93¢	South Saskatchewan Pipe Line Company	-
(3)	Midale Station, Sask.	St. Paul, Minn.	53¢	Westspur Pipe Line Company	Minnesota Pipe Line Company
(4)	Steelman Station, Sask.	St. Paul, Minn.	50¢	Westspur Pipe Line Company	Minnesota Pipe Line Company
(5)	Midale Station, Sask.	Wrenshall, Min. or Superior, Wis.	47¢	Westspur Pipe Line Company	-
(6)	Steelman Station, Sask.	Wrenshall, Minn. or Superior, Wis.	44¢	Westspur Pipe Line Company	-

TARIFF SCHEDULES: The tariff schedules published by Interprovincial that are currently in effect are included herein as Appendix "G". Lakehead participates in the joint rates to delivery points in the United States and Ontario but has not had occasion to publish a tariff.

COMPLAINT OF INTERNATIONAL REFINERIES, INC.: So far as is known to Interprovincial there has been only one instance, since the enactment of The Pipe Lines Act, in which a shipper has complained to the Board of Transport Commissioners for Canada against the rates listed in a tariff published by an extra-provincial pipe line company.

This case arose in 1956 when a shipper over the Interprovincial system requested the disallowance of the published tariff rate to Wrenshall, Minnesota upon the ground that it was unjust, unreasonable and discriminatory and in violation of Section 43 of The Pipe Lines Act. The shipper's complaint further requested that the Company be declared a common carrier under the provisions of Section 39 of the Act. In a subsequent pleading the shipper alleged that the Company had no right to enter into joint tariffs with other carriers unless such carriers also operated under The Pipe Lines Act.

This complaint, in essence, challenged the right of a pipe line company operating under The

Pipe Lines Act to have any flexibility in its tariffs or to quote competitive rates to compete with other modes of transportation into any given area.

The case was heard by the Board of Transport Commissioners for Canada on March 19, 20 and 21, 1957. At the conclusion of argument judgment was reserved and was subsequently delivered on April 23, 1957. The reasons for judgment are reported in 75 C.R.T.C. commencing on page 68 and are summarized on pages 75 and 76. In brief, the Board found that the Company had the power to publish competitive rates, and to enter into joint tariffs with other carriers and that the rate complained of was a fair competitive rate and did not constitute unjust discrimination as alleged. Further the Board declined, in the circumstances, to declare the Company a common carrier under the provisions of Section 39 of the Act.

The complainant moved before the rota Judge of the Supreme Court of Canada for leave to appeal to that Court from the Order of the Board of Transport Commissioners for Canada. The motion was heard by The Honourable Mr. Justice Rand on June 7, 1957 and on June 22, 1957 he delivered judgment dismissing the complainant's motion. The reasons for judgment are reported in 75 C.R.T.C. commencing at page 114.

The advisability of producing and refining companies owning shares in crude oil transmission pipe lines: It is this Company's submission that it is highly beneficial for producing or refining companies to hold shares in oil pipe line companies.

In the first place oil pipe lines do not deal with the public direct. They are the link between the producing and refining branches of the oil industry. The oil pipe line company depends entirely for its revenue upon the oil shipped over its line by its shippers, most of whom are either producers or refiners. The management of the pipe line company must at all times keep abreast of new discoveries in the producing areas, and of the requirements of the various refinery areas, as well as of new developments generally in the petroleum industry, in order to have facilities available adequate to serve the petroleum demand.

When producers or refiners are substantial shareholders of a pipe line company it is quite common for them to be represented on the pipe line company's Board of Directors. In this way the pipe line company enjoys the benefit of the knowledge and advice of competent oil company operators, has the benefit of over-all advice on the producing and marketing picture and thus has some sound basis upon which to plan for the future.

In the case of this Company the initial incentive and capital necessary to complete the planning and engineering and to commence construction was provided by Imperial Oil Limited, which company at that time owned a very large percentage of the oil theretofore discovered in Alberta. It is common practice for prospective users of a pipe line to furnish throughput guarantees or deficiency agreements to assure the success of any necessary financing of the pipe line. Imperial Oil Limited provided such guarantees in the case of Interprovincial (Appendices "C", "D" and "E").

It is only through expanding markets and the continued efforts of producing companies that new areas of petroleum are discovered. If these efforts are to be continued on an undiminished basis it is very obvious that these companies require a market for the petroleum and a means of getting the petroleum to that market. Should they be prohibited from participating in the financial ownership of transmission lines a great deal of the necessary incentive to broaden producing horizons would be stifled.

The most common, and perhaps only, criticism that could be directed against producing or refining companies holding shares in pipe line transmission companies is that through control of the pipe line company there may be a tendency to operate it for their own benefit at the expense of other shippers

and the public. Insofar as oil pipe lines in Canada are concerned such a type of operation is clearly prohibited by Part II of The Pipe Lines Act, and the Board of Transport Commissioners for Canada is given full authority to regulate and control any such abuses in the unlikely event that they should ever arise.

It is also desirable that the public be given an opportunity to share in the ownership of major crude oil transmission pipe line companies and thus contribute to, and be in a position to share in the benefits of, the development of the country. In this connection it should be pointed out that the public has provided a substantial portion of the necessary funds for Interprovincial's original line and subsequent extensions. It is, therefore, essential that the interest of the private or public investor -- and the incentive for attracting further private capital for extensions and new lines -- be protected by a fair return on his investment. It is submitted that, in Canada, the financial data made available to him through annual reports and statistics rendered to the Dominion Bureau of Statistics is an adequate safeguard.

PROSPECTS FOR EXTENSION TO MONTREAL MARKET

Mr. Chairman, since this was written, was prepared, in January, the picture has changed somewhat, and I will read this section as it is written in the brief, but following that I would like to make a short statement on the same subject.

THE CHAIRMAN: Quite all right.

MR. JOHNSTON: Considerable comment has appeared in the press in recent months on the desirability of a pipe line to serve the Montreal refining market with Canadian crude. Because this is such a highly controversial and timely subject, Interprovincial wishes to set forth some of the facts regarding such an extension as viewed strictly from the standpoint of a pipe line company.

The refineries in the Montreal area have a present refining capacity of approximately 250,000 barrels per day. Any pipe line system to serve the Montreal area should be designed with sufficient ultimate capacity to permit it to eventually supply a market of at least this volume. While initial throughputs might be somewhat less, a pipe line system to ultimately serve a market in excess of 200,000 barrels per day to be economically sound would need to be a major diameter pipe line and would require a minimum througput of around 150,000 barrels per day. It is only with throughputs and pipe line capacity of this nature that the most economical transportation can be provided.

Assuming for the purpose of this submission that Interprovincial would be the pipe line company to undertake the project, serving the Montreal refining market would mean not only the extension eastward of the present Interprovincial system to Montreal but also paralleling most of the present line west of

Toronto in order to provide sufficient capacity for the increased throughput. It might not prove necessary to construct this entire new line all the way from Western Canada to Montreal at one time as such a system could probably be built in a step-wise expansion program; however, it would ultimately result in a third major diameter line from Western Canada to Superior, a second line from Superior to Toronto and the extension from Toronto to Montreal.

If and when a pipe line to Montreal is to be built, it is reasonable to assume that Interprovincial could logically provide the most economical transportation of crude from the western provinces. By operating and utilizing certain portions of the Company's present facilities between Edmonton and Toronto, such as rights-of-way, maintenance and patrol equipment, operating and maintenance personnel and Head Office facilities, Interprovincial could provide transportation of crude at lower cost than could a separate pipe line running direct from Alberta to Montreal.

The estimated investment required for the modification and extension of the Interprovincial facilities with capacity to provide for a 200-250,000 barrels per day market at Montreal could be up to $240,000,000.

A major expenditure of this magnitude

could only be undertaken through additional borrowing and financing outside of the Company's present resources. Before such a project could be undertaken, in order to justify this project to lending institutions and financing sources the Company would naturally need to be assured that sufficient throughput would be available. This assurance would need to be in the form of long termthroughput agreements with the various refineries at Montreal, guaranteeing a minimum throughput sufficient to pay out the necessary investment for the project. Further, if the line is to be built on an economically sound basis, there would also need to be sufficient assured long term reserves of crude in Alberta, Saskatchewan and Manitoba to provide an adequate crude supply over the long range period.

The pipe line tariff necessary to support a line to Montreal would, of course, be dependent upon the line size, the estimated throughput for Montreal and, to a certain extent, the utilization of the balance of Interprovincial's system. For these reasons it is rather difficult to suggest an estimated tariff without a number of qualifying conditions. However, it is believed that for a throughput of 200,000 barrels per day to Montreal on a year-round basis, a reasonable tariff could be developed.

With assured long term throughput agreements with the Montreal refineries and adequate proven crude

resources in the West, Interprovincial as a considered business venture would be willing to consider the extension of its pipe line facilities to serve Montreal, thus providing another major market outlet for Canadian crude oil. It will be observed that no attempt is made here to explain or outline the various economic and political problems that confront the petroleum industry in the study of this problem. It is submitted that the answers to these serious questions do not lie with the pipe line company.

THE IMPACT OF TAXATION AND ENCOURAGEMENT REQUIRED FOR INCENTIVE: The present income tax structure is such that pipe line companies are not permitted to claim capital cost allowance (depreciation) on rights-of-way. The Company has approximately $3,000,000 invested in rights-of-way which it feels it should be allowed to amortize over a reasonable period.

Although there can be no question but that the rights-of-way or easements of a pipe line company constitute an interest in land nevertheless they differ materially from a fee simple interest.
As has been mentioned in the sub-section of section 7 entitled "Tariff Structure and History" the economic life of a pipe line is uncertain depending upon the depletion of the oil fields it services and changes in markets served by those fields. Once the pipe line has lost its economic value, the rights-of-way in which it is laid are likewise valueless. Therefore, it is

submitted that pipe line companies are entitled to a capital cost allowance on their rights-of-way.

With your permission, sir, I would like to add this statement.

Page 36 of Interprovincial's Submission contains a statement concerning Prospects for Extension to the Montreal Market. As we indicated in the opening paragraph of this statement, it was included in our Submission because of the considerable comment which had appeared in the press on the desirability of a pipe line to serve the Montreal Market with Canadian crude.

Our statement in the Submission was actually prepared in January and since that time the project has become one of public debate. We understood a submission would be made to this Commission advocating the necessity of building such a pipeline and we were informed that economic and engineering studies would be presented bearing on the feasibility of the project. It was therefore considered that it might be helpful to the Commission, as well as consistent with my Company's policy of trying to keep abreast of possible developments affecting its interests, to consider solely from the standpoint of a pipe line company the various factors involved in such a project. These factors include among other things probable costs of construction, financing, throughputs, and tariffs.

The estimated costs which we have developed

are not in the form of a detailed engineering report, rather they represent preliminary studies, but the data has been carefully considered and we are pleased to provide the Commission with our thoughts on the subject through evidence of witnesses present at this hearing.

It will be appreciated that we have not carried out physical surveys of the alternate routes, but our estimates are based on an extensive knowledge of the terrain and on our experience in construction and operation in similar circumstances.

We submit that a project of this size has many facets. However when viewed from the standpoint of a transportation company it must of necessity remain in the category of a business venture. It is our considered opinion therefore that such a pipeline can be financed only through the medium of a throughput guarantee furnished by shippers who might be interested in processing Canadian crude in the Montreal area.

Our studies up to this point have covered three alternate pipe line routes to Montreal.

1. Via Sarnia - in effect an extension of the present Interprovincial system.

2. A route via the Soo.

3. An all Canadian route.

Our estimated costs vary from $252 million for the Soo route to $319 million for the all

Canadian route. We believe that with a guaranteed throughput of 150,000 b/d the tariff on the Sarnia and Soo routes might be about 70¢ per barrel. On the all Canadian route it would be something higher -- approximately 73¢. As volumes increased over the years these tariffs could probably be reduced.

MR. FRAWLEY: That is the 70¢, Mr. Johnston, from Edmonton to where?

MR. JOHNSTON: Montreal.

THE CHAIRMAN: Thank you very much, Mr. Johnston.

What do you suggest, Mr. Pattillo? Do you wish to carry on for a time this afternoon or would you prefer to commence in the morning?

MR. PATTILLO: I think that there are one or two phases I might just deal with now. It may be I won't be able to get the information at this stage and it can be given to me in the morning.

Mr. Johnston, would you please turn to page 30 of your brief?

MR. JOHNSTON: Yes, sir.

MR. PATTILLO: You show there that 42.32% of the shareholding of the company is owned by three oil companies. In connection with Imperial Oil Limited, do you know anything about the percentage shareholding of that company?

MR. JOHNSTON: Their stock?

MR. PATTILLO: Yes?

MR. JOHNSTON: Yes, sir. The majority of stock is held, I believe, by Standard Oil Company, New Jersey.

MR. PATTILLO: And the second company, the British-American Oil Company Limited, do you know anything about the shareholdings of that company?

MR. JOHNSTON: I believe that the control of British-American is in the hands of Gulf in Pittsburgh.

MR. PATTILLO: And Canadian Oil Limited, do you know anything about the shareholding of that company?

MR. JOHNSTON: Not very definitely. I believe that is probably a Canadian controlled company. I don't think there is any outside interest.

MR. PATTILLO: You show that 57.68% of the shareholdings are held by persons having shares of less than 100,000.

MR. JOHNSTON: Yes, sir.

MR. PATTILLO: Is there anybody on your Board of Directors representing any of those shareholders?

MR. JOHNSTON: Yes, sir.

MR. PATTILLO: How many directors have you?

MR. JOHNSTON: We have nine directors.

We have four directors from Imperial Oil Limited, one director from British-American, one director from Canadian Oil, that is a total of six; myself and two outside directors, not associated with either oil company.

MR. PATTILLO: Who are the two outside directors?

MR. JOHNSTON: Mr. Denzil Walker of Wood, Gundy and Mr. Robert H. Reid of London Life Insurance Company.

MR. PATTILLO: And Mr. Walker of Wood, Gundy -- did they have anything to do with the financing of the company?

MR. JOHNSTON: Yes, they did. Wood, Gundy and McLeod, Young and Weir were the leaders in our financing and the other financing which we have done.

MR. PATTILLO: But Mr. Reid had nothing whatever to do with the creation of the company in any way.

MR. JOHNSTON: No, sir.

MR. PATTILLO: When we were dealing with the submission of Trans-Mountain in Victoria, Mr. Morrison, the president of that company, told us that his company made no effort to increase the volume of oil going through its line by contacting refiners or producers. What has been the policy of Interprovincial in that connection?

MR. JOHNSTON: When we forecast our monthly throughputs, those figures, of course, are derived from contacts, from shippers. Quite often during the month and on short notice those throughputs are reduced. We are advised very quickly and suddenly. It always comes as a shock and, while we may not be surprised anymore, we used to be. We try to find out the reason for the curtailment of the throughputs. It usually develops that, on schedule, we find it has resulted from the refinery being shut down at an unscheduled time. Recently, the refineries either found themselves long on crude or their products had not moved to the extent anticipated in their forecast. When these curtailments occur, we do try to find, from the shippers, the reason.

MR. PATTILLO: Have you approached anybody in Canada who is a refiner that has not been shipping over your lines, to find out why they have not been doing it?

MR. JOHNSTON: We have tried, for over a year, to interest the Sun Oil Company in taking Canadian crude to a greater extent than they have at the present time. It is only in the last few months that they have taken any Canadian crude whatsoever. At the present time I believe it is about 5,000 barrels a day that they are running at Sarnia.

We have talked to our various people in

the Sun Oil Company to encourage that situation.

MR. PATTILLO: Do you know what the capacity of the Sun Oil refinery is?

MR. JOHNSTON: I believe it is about 15,000 to 18,000 barrels, sir.

MR. PATTILLO: Now, can you give me any idea how long it has been in existence in Sarnia?

MR. JOHNSTON: Four years, I believe.

MR. PATTILLO: When did they first begin taking any Canadian crude?

MR. JOHNSTON: I would have to check on this but I think it is about a year ago, sir.

MR. PATTILLO: And what has been the maximum that they have taken?

MR. JOHNSTON: They had taken 6,000 a day, but the average has not been that high.

MR. PATTILLO: You told us approximately what the capacity was. Have you any idea how much crude they are bringing in, a day, in addition to what they have been taking over the Interprovincial line?

MR. JOHNSTON: They have been importing -- there have been times, I believe -- I don't know whether this is a steady thing, but it is about 20,000 barrels that they had been importing.

MR. PATTILLO: A day?

MR. JOHNSTON: Yes, sir.

MR. PATTILLO: Now, in your discussions

with the Sun people, have you found that the question of price has had any influence on their decision as to whether or not they would take Canadian crude?

MR. JOHNSTON: I'm afraid I would have to assume that, Mr. Pattillo. I don't seem to get a very definite answer from them.

MR. PATTILLO: Do you know whether or not the crude which they have been importing has been owner-shipped from their American parent to them?

MR. JOHNSTON: I believe that is a fact, sir. The Sun Oil Company is an owner in Mid-Valley Pipe Line, which comes from Longview, Texas, north, and from Lima, Ohio, I believe, where the Sun Oil has another pipeline, or jointly. Their crude is moved through either their wholly-owned or partly-owned system. I cannot say whether it is their own owned and produced crude.

MR. PATTILLO: Does that pipeline run into Detroit?

MR. JOHNSTON: It comes across the river at Sarnia from Signet, Ohio, in that vicinity, through Michigan, through the Detroit area and across the river at Sarnia.

MR. PATTILLO: Do you know who the other owners are in that pipeline?

MR. JOHNSTON: I believe it is completely owned by Sun, that section of it, sir.

MR. PATTILLO: That section?

MR. JOHNSTON: Yes.

MR. PATTILLO: Does Interprovincial have a direct line into the Sun from its main line?

MR. JOHNSTON: At the moment, no. We are planning on putting that line in. In fact, we have just received bids on its construction. We have deferred the leg of that line, which is approximately a mile long, until we could get something more definite from them as using our Canadian crude.

MR. PATTILLO: Have they been willing to give you a throughput agreement?

MR. JOHNSTON: No, sir.

MR. PATTILLO: So you do not know, if you put that line down, whether they will increase from the present 6,000 barrels a day or whether they will diminish?

MR. JOHNSTON: I would hope it would be a continuing operation.

MR. PATTILLO: Now, in addition to the Sun, are there any other refineries in Canada which are in close proximity to the Interprovincial pipeline that are not using Canadian crude?

MR. JOHNSTON: None that I know of, Mr. Pattillo.

MR. PATTILLO: In the United States, in the area traversed by the lines of the Lakehead,

are there any refineries in close proximity to the line which are not using Canadian crude?

MR. JOHNSTON: Yes, sir, there are two or three refineries in Michigan; a very small one at Westbranch, which has been a very intermittent shipper through our system. We have, at one time, delivered oil into the western part of Michigan, through joint operation with a system owned by the Michigan-Ohio Pipe Line, it is called, to two or three refineries in western Michigan, the Leonard.

Now, they have not been taking crude from our system for several months now.

MR. PATTILLO: Have you ever made a survey to ascertain what is the aggregate daily capacity of these refineries in the United States that are in close proximity to your line?

MR. JOHNSTON: We have that information.

MR. PATTILLO: Would you give us that?

MR. JOHNSTON: Leonard Refinery have a capacity of 19,500; Westbranch is a very insignificant -- a couple of thousand barrels a day, I believe.

As far as I know, those are the only ones that they have taken.

Now, we deliver, of course, to the St. Paul area. Their takings are very coarse, but they are rather consistent takers.

MR. PATTILLO: What is the capacity of

the refineries in the St. Paul area?

MR. JOHNSTON: The total capacity there is 51,500, which is the Great Northern and Northwest Refineries. There is a refinery at Superior, 12,000 barrels.

MR. PATTILLO: That is 12,000?

MR. JOHNSTON: Yes, sir.

MR. PATTILLO: Are there any other refineries other than those four that are in close proximity to the line?

MR. JOHNSTON: Yes, sir. At Wrenshall, which is just near Duluth, the International Refineries have a capacity of 11,000 barrels a day.

MR. PATTILLO: Any other refineries?

MR. JOHNSTON: No, sir, I don't believe so.

MR. PATTILLO: Do you know whether any of those refineries are owned by any oil company doing business in Canada or by any company which is affiliated or associated with an oil company doing business in Canada?

MR. JOHNSTON: I would say the Great Northern Oil, through subsidiaries -- which is Woodley Petroleum -- do have production in Saskatchewan and Manitoba, I believe.

MR. PATTILLO: What is the name of that subsidiary?

MR. JOHNSTON: Woodley, W-o-o-d-l-e-y.

MR. PATTILLO: Right.

MR. JOHNSTON: I don't believe there are any others.

MR. PATTILLO: How far is your line, looking at the map, its nearest point to the City of Detroit?

MR. JOHNSTON: I believe it is about 60 miles north of Detroit where we cross the St. Clair River, sir.

MR. PATTILLO: Are there refineries at Detroit?

MR. JOHNSTON: Yes, sir.

MR. PATTILLO: Do you know what they are and what their capacities are?

MR. JOHNSTON: No, I don't have that information, but I believe it is quite substantial.

I know of one, the Aurora -- I can't recall the others -- but it seems to me that the refining capacity in that area could be upwards of around 100,000 barrels.

MR. PATTILLO: Do you know of any refineries in the Detroit area that are owned by any of the companies doing business in Canada or by affiliates or associated companies of any company doing business in Canada?

MR. JOHNSTON: I believe not, sir.

MR. PATTILLO: Now, where is Toledo on this map?

MR. JOHNSTON: It is not marked.

MR. PATTILLO: How far is it from your line to Toledo?

MR. JOHNSTON: It is about 90 miles southwest of Bay City.

MR. PATTILLO: Which is shown on the map?

MR. JOHNSTON: Yes. Excuse me; just about south, not southwest; perhaps southeast.

MR. PATTILLO: What is the refinery situation there?

MR. JOHNSTON: I understand that is substantial, Standard of Ohio, I think it is, with over 100,000 barrels, well over.

MR. PATTILLO: Are any of the companies operating refineries in the Toledo area in any way carrying on business in Canada or are they affiliated or associated with any company that is?

MR. JOHNSTON: I can't answer that, Mr. Pattillo. I don't know all the refineries that are there, sir.

MR. PATTILLO: Well, do you know of any that is there --

MR. JOHNSTON: No, sir, I don't.

MR. PATTILLO: Now, have you or any officer of your company, or anybody on behalf of your company, ever approached any of the refiners whom you have mentioned, either being in close proximity to the line or in Detroit or Toledo, to see whether or not you could interest them in purchasing

Canadian crude?

MR. JOHNSTON: About two years ago there was a discussion about the possibility of the Toledo refineries using Canadian crude. I believe it turned out either that it was uneconomic or that the refineries themselves had not formulated their plans.

At that time they were also considering a line from the East Coast or, alternatively, a refinery on the East Coast with a products line to the west.

From time to time, we have had inquiries from the Aurora Refineries in Detroit, looking for Canadian crude, a heavy type crude which they believe could be economically worked into their plant.

MR. PATTILLO: Now, as a result of these inquiries that you have just mentioned, have you followed them up or had any of the producers in Alberta or any other producers in Canada followed them up to see whether or not a concluded agreement could be reached?

MR. JOHNSTON: Mr. Pattillo, we have to take this approach on a situation of that sort: we are a transportation company. We have nothing, really, to sell via service. When we receive an inquiry as to whether a refinery could be serviced from our system, we give them whatever encouragement we can, as a transportation company, by advising them that we are in the business of transporting oil and we

are quite naturally anxious to provide for additional earnings for our company, even to the extent of adding facilities to our system, if a project is feasible.

At the same time, we refer them to the producing companies and tell them that, first of all, they should probably develop their source of supply, the crude that they want. Other than that, we cannot do very much to encourage the business into our system.

MR. PATTILLO: Well, having done that, Mr. Johnston, have you ever had any of the producers come back and tell you what they did as a result of the information that you passed on to them?

MR. JOHNSTON: We don't direct them to any producer. We don't know, most of the time, where an inquiry is made.

MR. PATTILLO: So you simply say, "We are willing to ship, if you want to ship; we will extend the facilities, but you will have to hussle around and find somebody who can supply the kind of oil that you want"?

MR. JOHNSTON: That is correct, sir.

MR. PATTILLO: And you do not know whether they do it or not?

MR. JOHNSTON: I don't know what happens in that connection.

MR. PATTILLO: Now, what about the Chicago

area. Have you ever investigated the Chicago area, to find out the capacity of the refineries there?

MR. JOHNSTON: That is a very large refining centre, naturally, and is well served by various pipelines.

In the early days of our system, we did make studies of an extension to Chicago. At that time it did not seem feasible or practical that our line could go there.

There is a surplus of pipeline capacity, we have been led to understand, in the area, and any introduction into that market, as a pipeline company, by us, would merely provide more surplus pipeline.

MR. PATTILLO: At the present time, is the line of Interprovincial being used to capacity?

MR. JOHNSTON: Unfortunately, no, sir.

MR. PATTILLO: Speaking in percentages only, or in barrels, whichever way you wish to do it, would you give us some idea as to what the situation presently is and how long it has been of that sort?

MR. JOHNSTON: Yes, sir. As of April 1st, we have reserve capacity, between Edmonton and Regina, today, of about 88,000 barrels; between Regina and Cromer, 147,000 barrels per day.

MR. FRAWLEY: Mr. Johnston, not quite so fast. What were those figures?

MR. PATTILLO: You could add that on to what you are putting there?

MR. JOHNSTON: That is correct. We could carry that much more oil.

To repeat, Edmonton to Regina, 88,000; Regina to Cromer, 147,000; Cromer to Gretna, 108,000; Gretna to Clearbrook, 157,000; Clearbrook to Superior, 180,000; Superior to Sarnia, 72,000 and Sarnia to Port Credit, 68,000.

MR. PATTILLO: And has that situation been prevailing for a matter of some months now, Mr. Johnston?

MR. JOHNSTON: I would say that is probably higher than we have had -- or, rather, greater than we have had previously.

The early part of the year, I think our throughputs were about the same as last year, speaking of April, and I think our throughputs this month are a little lower; but those figures are based on figures as we see them at the moment.

MR. PATTILLO: Since you built this extension to Port Credit, you are not very far from Buffalo. What is the refining capacity over there?

MR. JOHNSTON: There is very little refining capacity there. I know of about two relatively small ones. I cannot give you the capacity, Mr. Pattillo.

MR. PATTILLO: It is not a significant amount?

MR. JOHNSTON: No, sir.

MR. PATTILLO: What can you tell us as to a proposed development of refineries, of which you

have knowledge, along the line, in Canada, which have not yet come into operation?

MR. JOHNSTON: Have not come into operation?

MR. PATTILLO: Yes. For example, I have in mind City Service.

MR. JOHNSTON: Oh, excuse me. City Service is now in the process of constructing its refinery at Bronte, which is very close to our line into Port Credit. We understand that refinery will be on stream early in 1959 and our instructions at the present time are that we shall deliver them crude starting in October of that year.

Further than that, the Shell have plans for a refinery in exactly the same area. The date of completion of that refinery is sometime later, which is 1960 or 1961. I don't believe it is fixed.

Both those refineries will be about 20,000 barrels each.

MR. PATTILLO: In addition to those two, do you know of any others that are proposed to be built or are in process of building?

MR. JOHNSTON: No, sir.

MR. PATTILLO: Those are all the questions I have on this phase of the matter and I think this will probably be a good place to adjourn.

MR. JOHNSTON: Mr. Pattillo, may I add one

more remark?

I did neglect to say that there are plans on foot for an expansion, I should probably call it, more correctly, than a new refinery, in Bay City, which will be a combination of the Bay Refining Company and the Dow Chemical.

That plan is a little bit less definite -- at least, it was a few months ago, but I think it would be up to maybe 13,000 or 14,000, from the present 5,000, in a year.

MR. PATTILLO: Thank you.

THE CHAIRMAN: Thank you, sir.

Gentlemen, the hearing of the Commission is adjourned until tomorrow morning, in this room, at ten o'clock.

---Whereupon the hearing adjourned, at 4.25 p.m., until 10.00 a.m., Thursday, May 1, 1958.

Mr Borden

ROYAL COMMISSION

ON

ENERGY

HEARINGS

HELD AT

CALGARY,

ALTA.

VOLUME No.: 31

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ROYAL COMMISSION

ON

ENERGY

Hearings held at Calgary, commencing Tuesday, April 29, 1958, at 10.00 a.m.

PRESENT:

Mr. H. Borden, C.M.G., Q.C. -- Chairman

Mr. J.L. Levesque -- Member

Mr. G.E. Britnell -- Member

Dr. R.D. Howland -- Member

Mr. L.J. Ladner, Q.C. -- Member

Dr. R.M. Hardy -- Member

COMMISSION COUNSEL:

Mr. A.S. Pattillo, Q.C.

Mr. Miles H. Patterson.

Mr. J.F. Parkinson -- Secretary to the Commission.

Major N. Lafrance -- Assistant Secretary to the Commission.

APPEARANCES:

Representing Interprovincial Pipe Line Company:

Mr. T.S. Johnston	- President
Mr. R.H. Clute	- Chief Engineer
Mr. D.L. Mathieson	- Solicitor
Mr. H. Lem Stevens Guille	- Western Division Manager
Mr. D.G. Waldon	- Treasurer
Mr. F.E. Warterfield	- President, Pipe Line Consultants, Dallas, Texas.
Mr. J.H. Ratcliffe	- President, McLeod, Young, Weir & Co. Ltd., Toronto

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EXHIBITS

No.	Description	Page
CC-1-1	Statement submitted by Mr. Frawley	4404
CC-1-2	Income Tax provision of Interprovincial Pipe Line Company	4405

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Thursday,
May 1, 1958.

---On resuming at 10.00 o'clock.

---Mr. Commissioner Ladner was not present.

THE CHAIRMAN: Gentlemen, the Commission will now resume its hearing. Mr. Pattillo?

MR. PATTILLO: Thank you, Mr. Chairman. Mr. Johnston, I want to turn for a moment to the matter of the present tariffs that the company is charging for these products which it is putting over its line. In your brief you make mention of the fact that in 1953 or in 1954, when it was decided to extend the line from Superior to Sarnia, that tariffs had to be set that would be competitive with tanker rates.

Was the sole criteria in determining what the tariffs should be from Superior to Sarnia the question of competitive tanker rates?

MR. JOHNSTON: Mr. Pattillo, before I answer that question may I make a suggestion, sir? May I suggest that the line of questioning which you have proposed to make deal first with our present system -- any question bearing on our present system. I feel that the question of the Montreal market has rather divided our presentation into two parts and my thought has been it would

probably present a more orderly picture and give the Commission a better picture of our operation if it was divided in that way; that is, if you have no objection.

MR. PATTILLO: That was the way in which I intended to proceed. Now, I would like to know about these tariff rates that were established when the line was extended from Superior to Sarnia and I want to know whether the sole criteria was the competing tanker rates?

MR. JOHNSTON: I think it was, Mr. Pattillo.

MR. PATTILLO: Then will you tell me what the competing tanker rates were at that time and what tariffs you established?

MR. JOHNSTON: We established a tariff of 20¢ in addition to our existing rate at that time from Edmonton or any other receiving point to Superior. In other words, our tariff ended up 20¢ higher than the existing Superior rate. According to the calculations we were able to make, the cost of moving crude by tanker from Superior to Sarnia was slightly in excess of 20¢.

MR. PATTILLO: At that time.

MR. JOHNSTON: Yes, sir.

MR. PATTILLO: Do you know, have you any figures or any calculations as to what would be the cost of moving oil from Superior to Sarnia

today by tanker?

MR. JOHNSTON: No, sir, I do not. I do know with one exception the tankers which were constructed especially for that business and represented at that time the largest bulk of oil carriers on the lakes -- not the largest, there are some others but for that particular trade -- have now disappeared. They have been converted to other trades. There is one British-American vessel still in existence and will be used, as I understand it, for this coming season. Beyond that, I believe, or based on that, I should say, the cost -- if that movement were re-enacted, would have to be moved in smaller vessels -- and, undoubtedly, the cost would be considerably higher. Also, recognizing that freight costs have probably gone up in the last four years.

MR. PATTILLO: When you were making the calculations regarding tanker rates in 1953 or 1954, were the rates purely local on the Great Lakes or were they in any way related to the USMC tariff at that time?

MR. JOHNSTON: No, sir; those were rates and cost figures of the actual movement by the companies as nearly as we could develop and bear no relation to USMC.

MR. PATTILLO: They were the figures as determined by Imperial Oil as one of the owners of

the tankers.

MR. JOHNSTON: That is correct, sir.

MR. PATTILLO: You speak about your tariff established in 1957 before, what I call, the Sarnia extension from Sarnia to Port Credit and, again, you have reference to tanker rates. What was the tariff established between Sarnia and Port Credit?

MR. JOHNSTON: We, again, added to our existing tariff; in this case, 8¢ taking the rate to Sarnia and adding 8¢ to that. Again, that was an attempt to be competitive with the movement from Superior to Toronto.

MR. PATTILLO: Was it intended to be competitive with the movement from Superior to Toronto or from Sarnia to Toronto?

MR. JOHNSTON: From Superior?

MR. PATTILLO: From Superior; and at that time what did you find was the cost of moving by tanker from Superior to Toronto?

MR. JOHNSTON: My recollection, I can check this, but I think it was just about 28¢.

MR. PATTILLO: Just about 28¢?

MR. JOHNSTON: About 28¢.

MR. PATTILLO: And you ascertain that figure from British-American Oil who was, in fact, using tanker shipments from Superior to Toronto; is that it?

MR. JOHNSTON: That is correct, sir.

MR. PATTILLO: Now, what is the distance

in mileage from Superior to Sarnia?

MR. JOHNSTON: By pipeline?

MR. PATTILLO: Yes?

MR. JOHNSTON: Our pipeline is 635 miles.

MR. PATTILLO: And that is a 20¢ tariff or was when originally established and how much is that a mile?

MR. JOHNSTON: That is a little over 3¢ per hundred miles.

MR. PATTILLO: Then we come to the Toronto-Sarnia extension and if my memory serves me right that is 154 miles.

MR. JOHNSTON: 156 pipeline miles.

MR. PATTILLO: How much is that at the present tariff of 8¢ a mile?

MR. JOHNSTON: About 2¢ per hundred miles; 5.12 per hundred miles.

MR. PATTILLO: What is the one coming down from Superior to Sarnia per hundred miles?

MR. JOHNSTON: 3.11.

MR. PATTILLO: So that the whole criteria for these tariffs we have been discussing over these two extensions is competitive shipment by water.

MR. JOHNSTON: Yes, sir.

MR. PATTILLO: How much does it cost Interprovincial when its lines are at capacity to move oil from Superior to Sarnia per barrel per hundred miles?

MR. JOHNSTON: That is a very difficult

question, Mr. Pattillo, because with a complex system, such as we have, we do not feel we can break down our costs into very segments of the line.

MR. PATTILLO: Have you ever tried?

MR. JOHNSTON: Yes, sir and it does not make very much sense.

MR. PATTILLO: Let us have a whack at it; we will let the Commission decide the sense of it. What did you find as a result of your calculations?

MR. JOHNSTON: I am afraid I am not going to be too successful in giving you a figure for a particular section of the line, Mr. Pattillo.

MR. PATTILLO: All right, let us see if we can do it this way: how much do you say it costs to move oil from Edmonton? Can you do this: Edmonton to Sarnia, the line being at capacity?

MR. JOHNSTON: In 1953, at which time our line was probably closer to capacity than any subsequent time and the cost for the system was 2.89¢ per hundred barrel miles.

MR. PATTILLO: And that was the system into Sarnia?

MR. JOHNSTON: In 1953 that was to Superior, sir. That comparable figure in 1955 when the line had been completed to Sarnia was 2.52¢ per hundred barrel miles.

MR. PATTILLO: I appreciate your line from Sarnia to Port Credit had not operated at capacity

since it came into being last September but you must have some estimate figures of what it is going to cost when it operates at capacity and can you give us that?

MR. JOHNSTON: I am afraid that the best I can give you on that, at the present time, recognizing the throughput in our system, for the first quarter of 1958 is 2.21. That is not exactly the question you asked; that is our system's toll.

MR. PATTILLO: 2.21¢ cost per barrel per hundred miles in the first quarter of 1958?

MR. JOHNSTON: Yes, sir.

MR. PATTILLO: Can we get it, either from you Mr. Johnston or Mr. Waldon, -- if I were a shipper at Port Credit and I arranged with you in the first quarter of 1958 to ship from Edmonton to Port Credit at your cost, what would be the aggregate amount of money I would have to pay?

MR. JOHNSTON: It would be very close to 40¢, sir.

MR. PATTILLO: During the first quarter of 1958 the system was not operating at capacity, was it?

MR. JOHNSTON: Unfortunately not.

MR. PATTILLO: How much would you estimate you could save off that 40¢ if the system was operating at capacity?

MR. WALDON: I do not think we can

answer that, Mr. Pattillo. Profit motive comes in here. We own a line which is capable of carrying much more oil than we are carrying today and we think the return on the investment to date has been reasonable.

MR. PATTILLO: Mr. Waldon, I am not asking about profit motive at all; I am not directing my questions to profit motive at all. I am trying to arrive at the cost. We have a problem here that has been presented to us by Home Oil and I am trying to get some data before the Commission that will enable us to assess the problem. Let us forget about the profit motive for the moment; I know that is difficult for you to do but tell me what you would estimate it would cost if that system was running full blast.

MR. WALDON: I would guess it would be in the neighbourhood of 2¢ a hundred miles.

MR. PATTILLO: That would be in the aggregate. How much from Edmonton to Port Credit?

MR. WALDON: About 38¢.

MR. PATTILLO: And in the aggregate to Sarnia it would then be approximately 36¢.

MR. WALDON: That sounds about right.

MR. FRAWLEY: So that I may understand the evidence, are you saying that it cost 2¢ to move from Edmonton to Port Credit, 2¢ per 100 mile barrel?

MR. PATTILLO: That is right.

MR. WALDON: That is if the line is operating to capacity.

MR. PATTILLO: Now, are your tariff rates worked out on the Dutton-Williams method or are they worked out in that part of your line from Edmonton to Superior?

MR. WALDON: The rates per mile for the short hauls are higher than for the long hauls. In other words, the further the oil travels the cheaper per mile it becomes.

MR. PATTILLO: And is that usual practice in transportation in other oil pipe line systems in North America?

MR. WALDON: It is.

MR. PATTILLO: Will you explain to us how the rates were determined for that part of the line from Edmonton to Superior?

MR. WALDON: That is explained in our brief, Mr. Pattillo, page 31.

MR. PATTILLO: That is when you had the original expenditure of what you thought was going to be 85 million dollars?

MR. WALDON: That is true.

MR. PATTILLO: But it turned out only to be

72 million dollars.

MR. WALDON: And when that fact was known and in the light of increased throughputs, we reduced our rates by approximately 17% on October 15, 1952.

MR. PATTILLO: What I am trying to get at, Mr. Waldon, is this. In arriving at these rates, where you had no competitive factors against you in the area from Edmonton to Superior, is there a formula you followed?

MR. WALDON: There is.

MR. PATTILLO: Now, will you explain that?

MR. WALDON: I will have to go back to the setting of the original tariff.

MR. PATTILLO: Right.

MR. WALDON: The rates were made up of a fixed basic charge per barrel plus an additive based on mileage. When a barrel of oil is tendered to a pipe line company for shipment certain basic expenses are immediately incurred by the company and these expenses remain constant when the oil is shipped 10 miles or 1,000 miles. I might add that the basic charge that we determined was 2¢ per barrel. Expenses incurred in receiving, gauging, storing preparatory prior to shipping and making the necessary accounting entries are a few examples of such expenses. Practically all these expenses are repeated when the oil is delivered out of the system. It was to cover these

inherent costs that the fixed basic charge per barrel was used as a component of the total charge.

MR. PATTILLO: Is that usual practice in determining tariff rates for oil pipelines in North America?

MR. WALDON: I believe it is. The additive was arrived at by multiplying the barrel mile factor by the number of miles involved in the specific movement. The barrel mile factor was derived by first calculating the required annual revenue; deducting from this amount the revenue the basic charge would produce; and dividing the balance by the number of barrel miles.

MR.PATTILLO: Now, in arriving at that required annual revenue there is a margin in there for profit?

MR. WALDON: There is.

MR. PATTILLO: Will you tell us what percent you considered was a fair and reasonable profit to mark up after making provision for income tax and all other expenditures?

MR. WALDON: We considered various returns on investment up to 7% when the system was debt free. However, the tariffs that were adopted initially were not expected to produce any such amount. In the first year of operations, namely, 1951, these tariffs produced a return on investment of 4.2%.

MR. PATTILLO: And in the last complete

[illegible]

year of operation in 1957?

MR. WALDON: On the same basis, 4.07%.

MR. PATTILLO: And have they in any year of operation exceeded 5%?

MR. WALDON: No.

MR. PATTILLO: And when you say return on investment you are talking about the capital employed in the business in way of plant, fixtures, etc.

MR. WALDON: That return is the relationship of net income or profit to investment and fixed assets at cost as at the first of the year.

MR. PATTILLO: At cost less depreciation or original cost?

MR. WALDON: Original cost.

THE CHAIRMAN: That is after income tax, Mr. Waldon?

MR. WALDON: After income tax.

THE CHAIRMAN: All taxes?

MR. WALDON: After all taxes.

MR. PATTILLO: Have your rates ever been the subject of an inquiry in Canada?

MR. JOHNSTON: Yes, they have in one instance, Mr. Pattillo.

MR. PATTILLO: On that occasion did the Board of Transport review the rates and decide whether or not in their opinion they were reasonable?

MR. JOHNSTON: This was a complaint lodged against the Interprovincial by International Refineries

which is an organization in the United States. It was reviewed by the Board of Transport Commissioners, and the claim or complaint of International Refineries was disallowed. It was subsequently appealed by International to the Supreme Court who refused to review the charges.

MR.PATTILLO: Was that on the question of the rates or was it on the question as to whether or not the pipe line should be declared a common carrier?

MR. JOHNSTON: Actually there were two parts to their complaint. One was that the rate was discriminatory, and secondly they asked that Interprovincial be declared a common carrier.

MR. PATTILLO: In determining the question as to whether or not the rate was discriminatory, did the Board of Transport examine and study your whole rate structure for tariffs throughout the whole pipe line system?

MR. JOHNSTON: No, sir. They dealt, I believe, exclusively, with that complaint.

MR. PATTILLO: Now, you mentioned in your brief that the tariff charged by your subsidiary, Lakehead, for that portion of the line in the United States is the subject matter of review by a regulatory body in the United States. Have they inquired into your tariffs and held hearings?

MR. JOHNSTON: No, sir.

[illegible] Ontology [illegible]

MR. PATTILLO: Has it been solely a matter of filing your tariffs with them and they doing nothing more than accept them?

MR. JOHNSTON: Our tariffs are filed with the Interstate Commerce Commission to the extent that the tariffs cover a movement of crude in our system in the United States. The function of the Interstate Commerce Commission is to accept these tariffs after they are filed, after which there is a thirty-day waiting period for any shipper to disagree with the rates as suggested, and failing any complaint on the part of the shipper the rates are then in effect.

MR. PATTILLO: Have you ever compared the rates presently being charged by Interprovincial with rates charged by pipe line companies, oil pipe line companies in the United States for movement of oil?

MR. JOHNSTON: Specifically we have not made a comparison with our rates, I would say, but we do have figures which show the returns and costs of various representative and large pipe lines in the United States. We keep that information currently. I have figures here for the 1957 operations.

MR. PATTILLO: Will you please read these into the record?

MR. JOHNSTON: These figures were taken from the reports filed with the Interstate Commerce Commission called "P" Form. It covers 17 representative pipe line companies. We find that their weighted

average operating revenue is 4.73¢ per 100 barrel miles. Deducting from that the controllable expenses, we find that the weighted average is 2.23¢ per 100 barrel miles, leaving 2.5¢ for interest and profit of those representative companies.

C MR. PATTILLO: Mr. Johnston, when the company decided in 1956 to make its extension from Sarnia to Port Credit, was the then market in Ontario carefully studied, both for short-term and long-term, in deciding the size of the line to be built?

MR. JOHNSTON: Yes, sir, it was.

MR. PATTILLO: And when you made the decision to build the 20-inch line that you built from Sarnia to Port Credit, how long did you think that line, with an additional pumper station, would be able to serve the needs of the projected Ontario market?

MR. JOHNSTON: The capacity of that 20-inch line, with two stations -- we have only one station in operation at the present time -- the capacity will be, I believe, about 186,000 barrels.

We felt that that was well beyond any immediate -- that that would take care of the market as far as we could see. We envisioned something over 100,000 barrels of refining capacity in the Toronto area within the next few years, but we felt that 186,000 was quite ample as far as we could determine at that time.

MR. PATTILLO: That is looking ahead for at least 6 or 7 years?

MR. JOHNSTON: Oh, yes, sir.

MR. PATTILLO: Further than that?

MR. JOHNSTON: Yes, sir.

MR. WALDON: The back row has drawn my attention to a statement I made which is incorrect.

In 1952 Interprovincial's return on investment was 5.12 per cent. I previously said that in no year had the return been in excess of 5 per cent.

MR. PATTILLO: Mr. Johnston, from your experience with pipelines, do you consider that a pipeline company has no other duty to its shareholders except to act as a facility for refiners or producers?

MR. JOHNSTON: I think, Mr. Pattillo, that there are quite different types of pipelines. I am afraid I can only speak for our own.

We recognize Interprovincial as a transportation facility engaged exclusively in trunk line operation, no gathering or anything of that nature. Under the circumstances, we look at our company as a private enterprise operation and we feel that, quite correctly, we should stay within the framework that we have.

MR. PATTILLO: What I have in mind, Mr. Johnston, is this: if the shippers that you have are keeping your line filled to capacity, then I concede that all your duty is to operate as efficiently as possible; but if the line is not filled to capacity, then haven't you a duty to your shareholders to do everything possible to get that line filled?

MR. JOHNSTON: I can see what you are thinking, Mr. Pattillo, but there is only so much market that can be served. We are certainly limited, geographically, to the areas that we serve. The consumption of crude oil or products in that area is

very definitely limited by the economic conditions and I am quite certain that the shippers through our system are just as anxious to ship and sell more products as we are to carry more oil.

We naturally try to carry every barrel that we can and, as I pointed out yesterday, we do try to run down any curtailment of throughput, with the thought that possibly, through some means in our system, we might encourage a little bit more capacity.

MR. PATTILLO: Since the cutback starting last year, has the company given any consideration to reducing its rates at any time to see whether that might increase the use of the line?

MR. JOHNSTON: No, sir, we have not. Our fixed charges constitute a large portion of our operating costs. Those, of course, go on. We doubt very much that a reduction in pipeline tariffs would stimulate any more business, because I would think, from what knowledge we have, that the market is using every barrel it possibly can at this time.

MR. PATTILLO: Now I would like to turn to this proposed extension to Montreal.

You told us yesterday that you made a study of three possible ways of getting to Montreal from your present system. As I understand it, the first one was from Port Credit to Montreal, a pure extension of the present line?

MR. JOHNSTON: Yes, sir.

MR. PATTILLO: The second one was what I call a cutoff at the Soo and going direct to Montreal?

MR. JOHNSTON: Yes, sir.

MR. PATTILLO: The third one was an all-Canadian cutoff, running through Canada, is that it?

MR. JOHNSTON: That is correct, sir.

MR. PATTILLO: And where would you cut off in the case of the all-Canadian?

MR. JOHNSTON: That route is projected along our present system to a point near Cromer, Manitoba. From there it would go about due east to Kenora down through Port Arthur and then up a little bit north of Kapuskasing and down through North Bay to Montreal.

MR. PATTILLO: Now, would you please give us the detailed figures of your preliminary study, in the same manner as we have the figures of the Home Oil, for, first, the extension from Port Credit into Montreal?

MR. JOHNSTON: May I ask Mr. Clute to present that to you, Mr. Pattillo?

MR. CLUTE: The extension via Sarnia, in other words, taking our route into Sarnia, coming down to a point probably south of Galt and then swinging around Toronto and on down to Montreal, the estimated total cost is $258 million, or $115,000 a mile.

The extension to Montreal via the Soo route, that is, following our present system down to a point in Northern Michigan near Gould City and

swinging north to cross at the Soo, down through North Bay and across to Montreal, would be an estimated $253 million or $123,000 a mile.

The all-Canadian route, following the company's existing route to a little east of Cromer and then swinging east and more or less paralleling the present Trans-Canada gas line system, is estimated at $319 million or $148,000 a mile.

MR. PATTILLO: And what percentage have you there for this famous contingency fund?

MR. CLUTE: 10 per cent of the estimated construction costs and materials, sir.

MR. PATTILLO: Now, Mr. Clute, from your experience in building lines -- and you have been with the company since its inception, have you not?

MR. CLUTE: Yes, sir.

MR. PATTILLO: -- supposing a decision was made today to build one of these extensions, how long do you think it would take before the contractors would be able to go on the ground to start the actual construction?

MR. CLUTE: From our experience in the construction we have already gone through, if the project was given the go-ahead now, I do not think they could get on the ground to start construction until early next Spring.

MR. PATTILLO: How long do you think it would take from the time they went on the ground until

the line was put into use, first, the proposed Home Oil line?

MR. CLUTE: I would say it would take two full construction seasons before the whole line could be in operation.

MR. PATTILLO: In the case of the Sarnia extension, that is, from Port Credit into Montreal, what would you consider would be the time required there?

MR. CLUTE: Well, I think we ought to probably elucidate a little on that. When we say "the Sarnia extension", we are not just talking of a line from Toronto to Montreal. The system would have to extend back all the way west. However, to get oil to Montreal via the present system from the point at which we would take off the existing system, into Montreal, could be built in one season, quite easily.

MR. PATTILLO: Then you would have to start looping on your present line in order that you could build up the volume that you wanted to get into Montreal?

MR. CLUTE: That is correct.

MR. PATTILLO: Until you did that looping, I suppose all you could put into Montreal would be the difference between the amount going from Sarnia to Port Credit and the capacity of the line with an extra pumping station on it?

MR. CLUTE: No, it is not quite that

simple, Mr. Pattillo, because you have to go back through the whole system and see where the bottlenecks are in the various sections.

We have some figures here which I believe Mr. Johnston gave yesterday about the reserve capacity based on our present throughputs and, for example, between Edmonton and Regina we have 88,000 barrels of reserve capacity.

However, if you look at the Sarnia-Port Credit section, we only have 68,000 barrels reserve capacity, so that even though we put the second pump station in on the Sarnia line, if we did nothing back between Edmonton and Regina, all the reserve capacity we could handle to go on to Montreal would be 88,000 barrels.

MR. PATTILLO: Will you please take what I call the second route, that is, the Soo route, and tell us how long you would estimate it would take to do that job?

MR. CLUTE: I believe that that job would take two construction seasons. We have looked at it on our existing system. We could get, by means of temporary boosters and what-not, on our presently planned construction this year, the section from Edmonton to Cromer, could be constructed a year later, and then the section from Cromer through to Montreal.

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MR. PATTILO: What about the all-Canadian route; would that take two seasons, too?

MR. CLUTE: I do not think there is any question of that, that is the roughest route of the whole lot.

MR. PATTILLO: What size of line have you used in making the calculations that you have put before us?

MR. CLUTE: Our figures are all on a 26 inch OD line.

MR. PATTILLO: And the 26 inch line, outside diameter line, would permit you to carry what capacity if operating at capacity?

MR. CLUTE: A 26 inch diameter line is good for up to about 280,000 barrels.

MR. PATTILLO: If you want to increase the capacity you have to start moving?

MR. CLUTE: You have to start moving or put in pumping stations, intermediate pumping stations in between the original design.

MR. PATTILLO: By putting in additional pumping stations what further increase could you get in the capacity of a 26 inch line without movement?

MR. CLUTE: By putting in the intermediate booster stations, intermediate pumping stations, it could be increased to approximately 350,000 barrels a day.

MR. PATTILLO: Could you give us any idea

of what you figure it would cost per barrel per 100 miles to move the oil over each of these routes that you have suggested?

MR. CLUTE: I do not have the figure right now, sir.

MR. PATTILLO: Would you like a few minutes to get that figure? We could have a break now, Mr. Chairman.

THE CHAIRMAN: We will have a ten minute break, gentlemen.

---A short recess.

THE CHAIRMAN: Gentlemen, we will now resume our hearing.

MR. PATTILLO: Mr. Waldon, could you give us any idea of what you figure it would cost per barrel per 100 miles to move the oil over each of these routes that you have suggested?

MR. WALDON: Yes, we can. We have calculated the figures on three different routes; 150,000 barrels per day, 200,000 barrels per day -- the figures I will give you are for the Sault route. The route via Sarnia would be slightly higher and the all-Canadian route would be higher, again. In the first year of operations we have 150,000 barrels a day. Our cost per 100 barrel mile is estimated at 4.04¢. 200,000 barrels a day, 3.49¢. 250,000 barrels per day, 3.12¢.

In the tenth year of operation, interest

having been reduced, the corresponding figures are: 150,000 barrels per day, 3.16¢. 200,000 barrels, 2.79¢. 250,000 barrels per day, 2.56¢. These figures are based on operating expenses, taxes other than income taxes, depreciation and interest.

MR. PATTILLO: Taking those mileage figures that you have just given us and aggregating them by the number of miles that the contemplated system would have, what cost does that result in; the aggregate cost into Montreal?

MR. CLUTE: I will have to consult for that figure: in the tenth year 150,000 barrels per day, 65¢ would be the answer. 200,000 barrels per day, again, in the tenth year, 57¢. 250,000 barrels per day, again, in the tenth year, 52¢ per barrel.

MR. COMMISSIONER HOWLAND: We got the first year --.

MR. WALDON: The figures I gave you are the operation in cents per barrel in the tenth year.

MR. COMMISSIONER HOWLAND: Could you give us the estimates for the first year?

MR. PATTILLO: You gave us the barrel per 100 miles for the tenth year; now, if you would give us that for the first year in the same way that you have given it to us for the tenth year.

MR. CLUTE: The first year: 150,000 barrels per day appears to be 82¢. 200,000 barrels per day, 71¢. 250,000 barrels per day, 64¢.

MR. PATTILLO: Mr. Clute, I just want to be sure that the figures we are talking about are comparable to the figures contained in the Dutton-Williams report which is attached to the Home Oil brief. In their brief they have a figure for construction costs, and is the figure that you gave us comparable to that figure or does it include something more than construction costs? For instance, they have construction cost, line fill, interest during construction, working capital and financing costs. Would you break down your figure for us so that we are comparing like with like.

MR. CLUTE: Yes, sir. The figures which I gave you for the three routes includes the stations, tankage, management, engineering supervision, interest during construction, contingency at 10% of construction costs and materials but it does not include line fill.

MR. PATTILLO: Does it include the costs of financing?

MR. CLUTE: Yes, sir.

MR. PATTILLO: So that with the exception of line fill, the figures are comparable to those given us by the Dutton-Williams people taken from the Home Oil submission?

MR. CLUTE: I believe they are but there is one thing that should be remembered: with the exception of the all-Canadian route and even on the

all-Canadian route east of Cromer, Manitoba, we would utilize a great deal of our existing right-of-way so that could change the figures as comparing it with the Dutton-Williams. There is also the fact that we are talking of a 26 inch line and they are talking of a 30 inch line.

MR. PATTILLO: From your experience in constructions of pipe lines, do you consider that a contingency factor of 5% is adequate on preliminary estimates?

MR. CLUTE: We did not, sir.

MR.PATTILLO: I am saying, based on your experience you would not consider it was adequate?

MR. CLUTE: Not in a preliminary estimate of this sort; that has not been our experience.

MR. COMMISSIONER HOWLAND: Would you permit a question, Mr. Chairman? Do I understand that yours is a much more preliminary estimate than is the estimate of Home Oil?

MR. CLUTE: In some respects, yes, sir, and in other respects, no. As Mr. Johnston remarked yesterday, we feel,with our background and experience the estimate is reasonably accurate. We have not yet actually been on the ground or flown the site via the Sault or the all-Canadian route which, I understand, from the Dutton-Williams report they have. The reason we chose the route we did for an all-Canadian route, was because we had figures for estimate purposes

for construction costs from figures of the Trans-Canada line which were prorated to a different size of pipe. We have pretty accurate figures of our own on a line down into the Toronto area. We also have accurate figures where we take off to go to the Sault and we weighted the Trans-Canada figures to come up with our estimate going via the Sault to Montreal.

MR. COMMISSIONER HOWLAND: You still feel it would be necessary to have a 10% margin even if you had done a fully detailed study?

MR. CLUTE: If you had made on the ground studies and know your terrain well, I think, then, that contingency could be reduced.

MR. PATTILLO: That is when you have made your location survey on the ground.

MR. CLUTE: That is correct, sir.

MR. PATTILLO: Not before?

MR. CLUTE: Right, sir.

MR. PATTILLO: Mr. Johnston, as I understood you to say yesterday, the tariff that you would think would have to apply to Montreal would be 70¢ if you went via Sarnia or via the Sault and you would have a tariff of 73¢ if you went the all-Canadian line?

MR. JOHNSTON: I said those figures were about that, in very close range, yes, sir.

MR. PATTILLO: If that happened would you follow your telescoping practice and increase the

tariffs at Sarnia and Port Credit or would they remain the same? Just what would happen?

MR. JOHNSTON: At the start, on that 70¢ range, I would say that the tariffs would remain as they are on the present system. We believe that the tariff to Montreal always should remain higher than any tariff in the Ontario market to preclude the backing of products into the Ontario market.

MR. PATTILLO: So that would immediately give the refiners in Ontario a substantial market that they have not got today?

MR. JOHNSTON: I do not follow you on that, sir.

MR. PATTILLO: Am I correct in thinking, today the refiners of petroleum through products pipe line are putting a lot of their products from Montreal into Ontario?

MR. JOHNSTON: That is true but, at the same time, even under today's conditions there are two refineries planned for the Ontario market which will provide manufacturing capacity of some 40,000 barrels within the next few years and I would think, to some extent, that that additional refining capacity would reduce the products which are now pumped into Ontario from the Montreal area.

MR. PATTILLO: Are they only bringing those products in from Montreal because of the lack of capacity of the refiners in Ontario today?

MR. JOHNSTON: I cannot actually answer that but I believe that is true, yes, sir.

MR. PATTILLO: Because it has nothing whatever to do with Montreal being able to undersell?

MR. JOHNSTON: No, sir.

MR. PATTILLO: Well, Mr. Johnston, if you are right in that can you help the Commission and explain why the refineries in Ontario today would be operating at less than full capacity and at the same time the products pipe line from Montreal would still be in use?

MR. JOHNSTON: No, sir, I do not believe I can. I know that there is a certain quantity of particular crude which is run in the Ontario market in the Toronto area which they, apparently, require for special products. I cannot really answer why they are not running at full capacity.

MR. PATTILLO: What I am having difficulty in understanding, in your experience would you say that production is being cut back on Canadian crude to enable the Montreal refineries who are using foreign crude to bring products into Ontario?

MR. JOHNSTON: I would not say that that is particularly 100% true; no, sir.

MR.PATTILLO: If it is not 100% true, to what extent is it?

MR. JOHNSTON: I believe there is a small quantity of foreign crude run in the refineries in

the Toronto area. I may be wrong on this but it is, I believe, 5,000 barrels a day of foreign crude.

MR. PATTILLO: I realize that is Sun Oil.

MR. JOHNSTON: No, sir.

MR. PATTILLO: That is not Sun Oil?

MR. JOHNSTON: No, sir, I am talking about the Toronto area.

MR. PATTILLO: What I am talking about is the Montreal refiners who are entirely using foreign crude -- that is correct, there is no Canadian crude going into Montreal?

MR. JOHNSTON: That is right.

MR. PATTILLO: They have a products pipeline capable of taking 60,000 barrels a day of products into the Toronto area, have they not?

MR. JOHNSTON: Yes, sir, but there are refineries or marketers in the Toronto area who do not have refining capacity in that area.

MR. PATTILLO: Let us see: B. A. has a refining capacity in the Toronto area and also in Montreal.

MR. JOHNSTON: Yes, sir.

MR. PATTILLO: Imperial the same?

MR. JOHNSTON: No, sir.

MR. PATTILLO: Well, they are in the Sarnia area and Montreal?

MR. JOHNSTON: Yes.

MR. PATTILLO: They have a products pipeline

from Sarnia right in to Toronto?

MR. JOHNSTON: That is right.

MR. PATTILLO: Then the other refiners in Montreal, Shell has not yet got a refinery in Ontario, is that it?

MR. JOHNSTON: No, sir.

MR. PATTILLO: So they would be dependent for their supplies in Ontario on the products pipeline from Montreal?

MR. JOHNSTON: Yes.

MR. PATTILLO: McColl-Frontenac -- is that the same situation as far as they are concerned?

MR. JOHNSTON: McColl has now acquired the Regent refinery at Port Credit. I am not able to answer whether that refinery provides all of McColl's requirements in Ontario but I would assume not as they are also using the products line. The other shipper into the Toronto area would be Petrofina.

MR. PATTILLO: And they have not got a refinery except in Montreal?

MR. JOHNSTON: That is right.

MR. PATTILLO: There are one or two questions I would like to ask you which I omitted this morning, Mr. Johnston. Number 1, in addition to this tariff that the company gets, what is its allowance that is permitted by the shippers of a percentage of the oil in the line which accrues to the Interprovincial; would you explain that?

MR. JOHNSTON: Yes, sir. It is common practice in the pipeline industry to allow the carrier a percentage; in our case it is 1% of the oil transported. In other words, a shipper putting in 100 barrels of oil at one end of the line gets at the other end, 99%. That 1% is to cover the carrier for losses in handling. It becomes his property to do with whatever he wishes. He might use it, as we do, for fuel in our engines or we can also absorb our losses for handling crude in and out of tankage. In any event, if there is any left over the carrier has the opportunity of selling that if he can find somebody to buy.

MR. PATTILLO: Is that 1% figure a percentage generally used throughout North America by pipeline companies?

MR. JOHNSTON: There are figures of ½ of 1%, 3/4 of 1% and 1%. In refined products I believe the allowance is higher.

MR. PATTILLO: What does it amount to in the way of an increase in revenue to your company since the time of its operations?

MR. JOHNSTON: We have that in our annual statement and I can get it for you.

MR. PATTILLO: Very well.

MR. JOHNSTON: Mr. Pattillo, I have here the figures for the first three months of this year. Allowance oil revenue, $513,000 against which we

[illegible]

[illegible]

[illegible]

charge fuel for the operation of our diesel engines. It does not give us our net figure on this but our operating costs in that particular account in the first three months are $800,000; and, of course, part of that is fuel.

MR. PATTILLO: Now the other thing I would like to ask you about is this: you told us this morning, or Mr. Waldon did, the percentage of the earnings based on employed capital and depreciated. I would like you to tell me what the percentage of your earnings after income tax has been to the invested share capital? In other words, looking at your brief, page 29, you have an invested share capital of $44 million odd; is that correct?

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MR. WALDON: May I muster my papers, Mr. Pattillo? I will be right with you. You were asking for the return on the shareholders' investment; is that correct?

MR. PATTILLO: What I want to get at, Mr. Waldon, is this. On page 29 you show a figure of $66,630,000, which includes an amount of $22,268,000 of retained earnings. Now, I am assuming that retained earnings are monies kept in the business from profits made in previous years after the deduction of income tax and everything and which could, if you had seen fit to do so, have been entirely distributed to the shareholders. Am I right in that?

MR. WALDON: Correct.

MR. PATTILLO: Accordingly, I am trying to find out on the original amount of money put in by the shareholders which I assume from page 29 is $44,300,000-odd. Am I right about that?

MR. WALDON: Yes.

MR. PATTILLO: Now, what has been the rate of return that the company has been earning for the years of operation after payment of taxes and payment of interest and everything that was required on the funded debt on that $44 million? Last year you said you earned $9 million, and I would assume that is approximately somewhere in

the vicinity of 18 per cent.

MR. WALDON: I would have to make the calculation. I have it figured here but including the retained earnings.

MR. PATTILLO: Perhaps, if you have it figured out including the retained earnings, you would first give us those and then give us the figure without retained earnings.

MR. WALDON: The return on the shareholders' investment, that is net income related to the shareholders' investment, as at the beginning of the year on that figure you mentioned in 1957 was 14.92 per cent; in 1956 it was 16.32 per cent.

MR. PATTILLO: I am not going to ask you to go back beyond that year, but could you give us the figures for those two years, taking out retained earnings figures in each instance?

MR. WALDON: I will have that in a minute. In 1957 the figure was 21.5 per cent; in 1956 the figure was 22 per cent.

THE CHAIRMAN: Have you got those figures for 1955 and 1954?

MR. WALDON: We can calculate them very readily for you. I don't have them right here.

THE CHAIRMAN: There was a significant change in your capital structure in one of those years.

MR. WALDON: The significant change took place in 1953, that is correct, by means of rights offered to existing shareholders, $22 million worth of stock sold at $18 a share.

THE CHAIRMAN: On a one-for-five basis; is that right?

MR. WALDON: Two-for-five.

THE CHAIRMAN: Can you give us that calculation for 1955, 1954 and 1953?

MR. WALDON: We can and will.

MR. PATTILLO: Mr. Chairman, those are all the questions that I propose to address to the officers of the company. Mr. Floyd Warterfield is here. I happen to have met Mr. Warterfield in a professional way a number of years ago and I happen to know something about his qualifications, and I thought that while I have the opportunity I should like to address some questions to him which may be of assistance to the Commission, the question of pipelines. But before doing that, I thought perhaps the Commission would deal with the questions they might like to ask the officers of the company, and if Mr. Frawley has any questions, and then I will ask Mr. Warterfield to help us.

THE CHAIRMAN: I wondered, Mr. Pattillo, if you would pursue some questioning of the officers with respect to the undertaking of Imperial Oil on the throughput to Sarnia, the statement at the bottom

of page 28 of the brief.

MR. PATTILLO: In the last paragraph on page 28 you say that the sale of Series C bonds was so made by an undertaking given by Imperial Oil Limited on April 1st, 1953. The Series C bonds were the bonds that were issued, were they not, and sold for the purpose of building the extension from Superior to Sarnia?

MR. WALDON: That is correct.

MR. PATTILLO: And they aggregated how much?

MR. WALDON: $60 million.

MR. PATTILLO: And Imperial undertakes -- and this undertaking, you say, remains in force so long as any of the Series C bonds are outstanding -- that all of the crude oil which it is going to send to Sarnia from Alberta, Saskatchewan or Manitoba would be tendered to Interprovincial for transportation.

MR. WALDON: As far as Sarnia. It means that they have discontinued using the tankers.

MR. PATTILLO: The effect of the undertaking was that Imperial said, "We will discontinue the tankers and we will not resume using tankers". Is that it?

MR. WALDON: That is substantially correct.

MR. PATTILLO: And had there been any

previous undertaking on the part of Imperial in that in the transportation of Canadian oil it would use only the facilities of Interprovincial?

MR. WALDON: Not exactly in those words, but the original financing was made possible by a throughput agreement given by Imperial. That is shown as an exhibit in our presentation, and it continues in force until 1970, I believe it is, and it is to the effect that they will tender or cause to tender a definite quantity of oil to Interprovincial for transportation expressed in terms of barrel miles.

MR. PATTILLO: What I am thinking about is this: supposing Home Oil's proposed pipeline was built from Edmonton to Montreal, could Imperial tender any oil to that pipeline without being in breach of its undertakings?

MR. WALDON: The original throughput agreement is still in effect and will continue to be in effect until January 1st, 1970, so Imperial will have to continue to that time tendering sufficient oil to Interprovincial or causing it to be tendered to bring the throughputs up to the level specifically mentioned in the throughput agreement; and then as regards the agreement entered into in 1953, it clearly states that to the extent that they are shipping or causing oil to be shipped to Sarnia from Western Canada and they will use the Interprovincial

system. That has raised an interesting point. It doesn't say whether they can't ship oil to Montreal or not.

MR. PATTILLO: Mr. Johnston, I thought I did ask you this question, but it is suggested that it isn't clear. At the present time your tariff to Port Credit is how much?

MR. JOHNSTON: 72¢.

MR. PATTILLO: And you would contemplate that if the line went on to Montreal it would remain at 72¢ but at Toronto it would be 70¢?

MR. JOHNSTON: No, that is not quite correct. I said that our existing tariffs would be really modified. I probably should have said that the Toronto rate -- you specifically asked for Sarnia, I believe, and I said there would be no change in that. I probably should have added that the Toronto tariff would be reduced, but I did point out that we felt that the Montreal rate should be higher than the existing rate to Toronto.

MR. PATTILLO: Have you given any thought as to what the differential should be?

MR. JOHNSTON: No, sir.

THE CHAIRMAN: Mr. Johnston, is there any other shipper of oil in Western Canada who is obligated to ship its oil through Interprovincial Pipe Line in like manner as Imperial Oil under this undertaking?

MR. JOHNSTON: No, sir, there is not.

MR. COMMISSIONER LEVESQUE: Do you have the results of the first few months of 1958 compared with 1957?

MR. JOHNSTON: I believe you want to speak to Mr. Waldon, do you not?

MR. COMMISSIONER LEVESQUE: Mr. Waldon?

MR. WALDON: I have some figures for the first quarter of 1958 and 1957.

MR. COMMISSIONER LEVESQUE: How do your earnings compare with 1957, the first three months?

MR. WALDON: We show a slight increase over 1957, largely due to the shipments into the Toronto area. The extension to Toronto was placed in operation on September 28th, 1957, and the 1957 figures do not reflect the true shipment picture.

While I am on that I would like to correct some figures that we gave earlier regarding cost of movement to Montreal. I find that our calculations were very much haywire. I would like to start all over again. The first year of operations, 150,000 barrels per day, we now calculate our costs at 1.97¢ per 100 barrel miles; 200,000 barrels per day, 1.7¢.

MR. FRAWLEY: Mr. Waldon, are these in lieu of the 4.04¢ you gave us earlier?

MR. WALDON: They certainly are, Mr. Frawley.

MR. PATTILLO: You did not have the profit motive in, before.

MR. WALDON: I'm afraid I confused it.

MR. FRAWLEY: That is via the Soo?

MR. WALDON: That is via the Soo, and Sarnia would be slightly higher --

MR. FRAWLEY: Would you start again at the 150,000 barrels?

MR. WALDON: I would be glad to. At 150,000 barrels, it is 1.97¢ per 100 miles. At 200,000 barrels per day, it is 1.7¢. At 250,000 barrels per day, 1.52¢.

In the 10 years of operations, interest having reduced to a considerable extent, for 150,000 barrels per day the figure would be 1.54¢. At 200,000 barrels per day, it would be 1.36¢. At 250,000 barrels per day, 1.25¢.

Corresponding tariffs: in the first year of operations, 40.4¢, 31.9, 31.2.

I said "tariffs". I mean costs per barrel.

MR. PATTILLO: Aggregate.

MR. WALDON: In the tenth year, for 150,000 barrels per day, 31.6¢. At 200,000 barrels per day, 27.9¢. At 250,000 barrels per day, 25.6¢.

MR. FRAWLEY: That is as against the 52¢ which you gave, is it, Mr. Waldon?

MR. WALDON: We apologize.

MR. FRAWLEY: I just wanted to check.

I think you are back in the pipeline business now.

MR. WALDON: I think we are, Mr. Frawley.

MR. COMMISSIONER HOWLAND: Mr. Johnston, could I refer you to page 19 of your brief and the first paragraph under "Progressive Expansion of the Pipeline System and Facilities".

You indicate, in that first paragraph, that it has been the policy of your company, since the original 1950 construction program, to make the necessary plant additions each year, which will enable you to meet its pumping commitments for the following year, and this seems, by your brief, to have been the policy year after year, to progressively expand as the market demands would warrant the expansion.

MR. JOHNSTON: Yes, sir.

MR. COMMISSIONER HOWLAND: Is this the normal practice of a pipeline, to proceed in this manner? Is it inevitable?

MR. JOHNSTON: Are you speaking of pipelines generally or are you referring, specifically, to our policy, sir?

MR. COMMISSIONER HOWLAND: I was thinking in terms of the general experience of a pipeline doing the type of operation that Interprovincial is doing.

MR. JOHNSTON: I think Interprovincial might be considered a little bit differently, sir.

In the first place, this line was started from scratch. Up to that time there had been no need for a pipeline. Since the production increased and the markets expanded, it was our policy, of course, to provide a means for that oil to reach the outside markets. We, of course, would not want to over-expand and have a lot of idle equipment, tying up funds unnecessarily.

We felt, in an expanding market of this type and a rather new industry as far as Canada is concerned, that that was the correct approach. We feel that by spending this money progressively, not overexpanding, but at the same time trying to provide every possible facility to supply the market and not be in a position of turning down business, that policy has evolved over the years.

MR. COMMISSIONER HOWLAND: There would seem to be some justification for this, at the moment, because you have overcapacity, is that it?

MR. JOHNSTON: We have overcapacity at the moment.

MR. COMMISSIONER HOWLAND: Just for my education on this, would one normally proceed on this basis? Is it highly desirable or is it better, if the conditions are possible, to start, rather, with an overcapacity?

MR. JOHNSTON: I don't think anybody would want to expend a large amount of money which would

be lying idle for X number of years. This market of ours has been constantly expanding. We had no real forecast of it back in 1951. It grew faster than we anticipated and we have tried to keep up with it.

I don't think, generally speaking, it would be good economic policy to build a big line that would very definitely be far beyond the market. There should be a reasonable margin in there, I should say.

MR. COMMISSIONER HOWLAND: It does not catch up on you, under this procedure, that you land up with a lot of loop lines?

MR. JOHNSTON: We have loop lines, yes, and that makes our operation more difficult, at the moment. On the other hand, we are ending up now with a double line from Edmonton to Superior. In the intervening years it has made our operations more complex, with the various types of crude which we are carrying; but it will simplify to a great extent when this double line is completed.

In effect, we have two systems parallel to each other.

MR. COMMISSIONER HOWLAND: My second question is one that you might possibly expect from me, with a somewhat academic background as well.

You are familiar with the term "the discipline of the marketplace". This is a fairly

common term, used not only by economists but by business men, speaking about free competition.

MR. JOHNSTON: Yes, sir.

MR. COMMISSIONER HOWLAND: Would you tell me what are the marketplace disciplines which ensure the efficiency of interprovincial pipelines, that is, your particular company?

MR. JOHNSTON: Possibly you should explain that "marketplace discipline" a little bit more for me.

MR. COMMISSIONER HOWLAND: I think that is a good way of putting it. I thought, as a private enterprise operation, you would be fairly familiar with the items which are involved, that is, that you have certain competitive elements, such as a competing pipeline, the competing form of transportation bringing fuel into your area and competing with you, or it could be a substitute fuel or some sort of competition, some sort of competitive element pressing in on you to obtain the lowest possible price consistent with making a reasonable return.

MR. JOHNSTON: Of course, sir, when this pipeline was considered, the only means of transporting crude was trucking and by rail. When the volumes became a great deal larger than they were in 1950, then, of course, the expense of moving such a volume by rail actually became prohibitive

and trucking, of course, is only used for very short hauls.

We felt that to build this pipeline and deliver Canadian crude to Sarnia, it would have to be competitive, of course, with the existing type of crude used in that area, and our rates were predicated on that basis, allowing us a profit and allowing for the tanker transportation at that time from Superior to Sarnia, and Canadian crude, with that combination of factors, was laid down in Sarnia competitive with Illinois crude, which at that time was the competition.

MR. COMMISSIONER HOWLAND: Let us assume, to follow that through, that you got slack and you raised your prices too high. I am not suggesting that you are, but for a supposition let us assume you got a little slack. What would press in on you? Where would you feel this? I am not talking about the shareholders. They would be after you, no doubt; but what is the competitive element within the industry which would be pressing in on you?

MR. JOHNSTON: There is certainly no competitive pipeline. We have the only means of moving that crude eastward. As long as that market must be supplied with Canadian crude, there is no other comparable method of transporting it. Certainly, from the present sources, there is no other outlet.

MR. COMMISSIONER HOWLAND: Thank you.

MR. COMMISSIONER BRITNELL: Mr. Johnston, you conclude, on page 12 of your brief, that the Board of Transport Commissioners is the desirable federal regulatory body for oil pipelines. In view of Interprovincial's relatively long and unique experience in matters relative to the administration of The Pipe Lines Act, would you care to make any suggestions as to whether the Act should be amended in any way to facilitate the Board's administration of interprovincial pipeline matters? I am thinking particularly, of course, of your problem of Westspur, connecting with your line at Cromer, across the border.

MR. JOHNSTON: I think probably Mr. Mathieson can comment more specifically on that than I can but, before that, I would like to say that our relationship with the Board of Transport Commissioners has certainly, in the last seven or eight years, been an extremely happy one. We have found they have dealt with every problem we have asked them to; every presentation we have made to them has been most co-operatively received and we felt that their judgment has been extremely good.

As far as the Board itself goes, we have absolutely no complaint, and I might say it has been a very happy association for us.

We do not have any particular comments,

I believe, as far as The Pipe Lines Act under which we now operate. We look at this purely from the standpoint of a transportation company and I am not qualified to speak, of course, as to the Board's jurisdiction in other fields; but, as we exist today, it has been extremely successful.

Now, possibly Mr. Mathieson may have some comment on The Pipe Lines Act.

MR. MATHIESON: Well, Mr. Chairman, as to Mr. Britnell's raising the point as to a particular problem of Westspur, I might say that in our experience we have had no problem. That is, we have had no particular problem which arose with that particular company or the two companies involved.

I do not want to get into a constitutional law discussion but I may point out that, comparing Westspur's particular case with our own, only six months before the Westspur decision we applied to the Board for leave to sell a line approximately a mile and a half or so long just near our Edmonton station to a provincial company. We had no further use for this particular line, which had been an extension, with the leave of the Board, I believe in 1951. It was constructed for the purpose of taking oil to refineries, a certain type of oil. It turned out that the refineries changed their minds as to the use of that oil and, therefore, the pipeline was of no use to us at all.

We went to the Board with our application for leave to sell it and they were very particular about our being able to establish that it would not be used for the extraprovincial pipeline system and we had to establish the reason why we felt that, why it was no longer of any use to us, and they were very particular, I repeat, that it would not be a part of the extraprovincial system after it was sold to the provincial pipeline.

Now, if there is any necessity for amending the Act, I might point out that the particular problem arose in the Westspur case, with which, of course, we had nothing whatever to do -- arose in a rather strange way and it could not arise in our case, for example, because we do not apply for leave to build gathering lines. We never have; we ask for it from Point A to Point B.

In that particular case it was specifically asked that the gathering line be put in and the Board of Transport Commissioners at the time, through Mr. Justice Kearney, I believe, in 1955, somehow considered the particular application a particular Special Act of the Westspur Company and found it would be a part of a trunk line system.

Well, certainly, the situation which developed in 1957 was rather embarrassing, when the producer was formed to take over certain gathering lines; but it is a particular case and I cannot conceive of

any necessity of it arising again. It certainly could not arise with us, and there has been some comment, I might say, about the effect of that judgment, with all respect, particularly to hearings in Regina, which I do not follow at all, because there the Board specifically stated that it was not to be implied that those findings constituted the expression of an opinion that, under all circumstances, all gathering lines located wholly within a province and whether constructed and operated by Provincial or Special Act Federal companies, by connecting with an extraprovincial pipeline as defined in The Pipe Lines Act, are necessarily, in fact, a part of either such extraprovincial line or an interprovincial undertaking.

I might say to this question of the right of access of provincial undertaking such as a railway or one of our new pipelines taking over a provincial undertaking, such as a pipeline, has been considered some years ago. There are actual decisions on it. I know of one in particular; I cannot give the citation offhand but if the Board is interested I could. In it the Board said, although they have the jurisdiction to grant the right of a railway, a Dominion railway to take over a provincial line they would only do it in a case of necessity and not for the financing of the Dominion railway or conceived railway lines. I hope I have not gone into that at too great length but that is our feeling about the matter.

MR. COMMISSIONER BRITNELL: Thank you.

MR. COMMISSIONER HARDY: I gather from your comments, Mr. Mathieson, that the situation is definitely confused. The Board of Transport Commissioners are reserving the right to go either way on these things.

MR. MATHIESON: I do not know; in the question of constitutional law there is a field that is known as no-man's-land that has caused many, many decisions over the years. That question did arise, of course, Dr. Hardy. It was cited, the Westspur case itself, where just the previous year Westspur apparently wished to complete an

extension of its line in Saskatchewan and applied to the Board for permission to do so. Then the Provincial Government came in and informed the Board, "We already have a provincial permit to build the same extension and, in fact, started to construct it" and the Board said, "We have jurisdiction to grant an order to Westspur." I do not know exactly what was said but the fact was it would not be in the public interest to duplicate a pipeline and, therefore, they did not grant Westspur the order. It is a matter of common sense in the granting of an order in a case like this even if there is the jurisdiction.

MR. COMMISSIONER BRITNELL: Mr. Johnston, venturing on a little from the constitutional position of Westspur, perhaps to collect a little oil from the line, it is stated on page 36 of your brief "that the Interprovincial existing facilities which provide for a 200,000 to 250,000 barrel-a-day market would cost up to $240 million. I wonder if you would care, Mr. Johnston, to venture a guess as to how much of the new oil required would come from Alberta and how much from Saskatchewan? I do not want to appear to be a Maritimer.

MR. JOHNSTON: I do not think I can answer that question. What oil is delivered to us as a carrier is completely within the discretion of the shipper. I would imagine the laid-down cost of the

oil would have some bearing on what the shipper wants to pay but we do not have any jurisdiction over the tenders delivered to us. It would be very difficult for us to say today a great part of that oil is coming from Alberta or Saskatchewan or either one.

MR. COMMISSIONER BRITNELL: The fact that you suggest the possibility of a take-off from the Manitoba-Saskatchewan border at Cromer might suggest that, since that oil from Saskatchewan fields would be 500 miles closer.

MR. JOHNSTON: I did not mean to convey that impression at all. The take-off you are mentioning just happens to be in that area and proceeding due east through to Montreal, this so-called northern route or all-Canadian route changes direction but that is a geographical reason for the take-off in Cromer but has no bearing that crude could be received into Cromer. . I should correct that if that is the impression you got.

MR. COMMISSIONER BRITNELL: Has the company ever considered the possibility of using at least part of its line for petroleum products transportation in view of the fact of some unused capacity in the system.

MR. JOHNSTON: You are talking about refined products?

MR. COMMISSIONER BRITNELL: Yes, sir?

MR. JOHNSTON: No, sir, we could not do that.

MR. COMMISSIONER BRITNELL: I believe it is done someplace in the United States.

MR. JOHNSTON: I do not know of anyone handling crude who do that; some handle a great many grades, sometimes up to 25 or 30 in many lines going down the scale but in our case it is strictly a crude line and with the complex operation -- I think you possibly had in mind using one line for crude and one line for products but we could not do that even though there is really no market for a products line in our particular area.

MR. COMMISSIONER BRITNELL: I was thinking of using one of the lines part of the time for refined products.

MR. JOHNSTON: At the moment I could not think where we could move them to through the system as we are set up today.

MR. COMMISSIONER BRITNELL: I thought there might be someplace where there would be a normally relatively small refinery and it would be more economical rather than several small refineries along the line. I thought it might be a more economic operation if all other aspects were feasible.

On page 17 you observe that Imperial Oil Limited in getting the initial Interprovincial Pipe Line project under way assumed direct responsibility

for the purchase of pipe in an amount of some $9 million. As a result of this service did Imperial acquire any special consideration in the way of stock options or any other purchase of that nature?

MR. JOHNSTON: Absolutely not, sir. That money was put up because it was a question at that time, you will recall that pipe was in very short supply and it was a question of getting in on the west when we could possibly could and our financing, as I recall, was not completely finalized. We did not have the cash, I might say, and it was, in fact, a guarantee that somebody would pay for that pipe. It was quite obviously a temporary measure done to expedite the constructing and financing of this line and as a result of it there was certainly no favouritism or anything granted as a result. It was merely set up to get us into business.

THE CHAIRMAN: Mr. Johnston, is there any reason why an oil transmission pipeline could not be laid on the same right-of-way as a natural gas transmission line?

MR. JOHNSTON: Physically, i believe it is possible. I might say that with any pipeline company the right-of-way is really their lifeblood and which they regard very jealously.

THE CHAIRMAN: I am not speaking of the legal provisions; I am speaking of the engineering or physical possibility.

MR. JOHNSTON: I do not mean legal either. What I meant was, you take a right-of-way and with the expectation of laying more lines within that area, if another company laid a line in our right-of-way it would cramp us for future development and in some cases there is actually not room. Physically, it would probably be no different than laying another loop in our own right-of-way. Physically it can be done, sir.

THE CHAIRMAN: So that, as far as you are concerned, the natural gas line could be laid alongside your line or put on your right-of-way.

MR. JOHNSTON: Physically it could be done.

THE CHAIRMAN: There would be no problem.

MR. JOHNSTON: I might have some problem with our engineers.

MR. PATTILLO: I think, probably, I should bring something out about this: at the present time construction practice followed by Interprovincial is to have a 60-foot right-of-way, is that correct?

MR. JOHNSTON: Yes.

MR. PATTILLO: And that is what is required under The Pipe Lines Act? When you are putting a line in, for instance, when you put in your extension line from Sarnia to Port Credit, where did you locate the first line in relation to the north boundary of the right-of-way?

MR. JOHNSTON: 20 feet south of the north

boundary.

MR. PATTILLO: When you put in a looping, how close is the placing of your second line to the centre line of the first ditch?

MR. JOHNSTON: Ten feet away, sir.

MR. PATTILLO: So that, you can, from engineering practice, put in how many lines safely in a 60-foot right-of-way?

MR. JOHNSTON: Four -- three or four, depending, of course.

MR. PATTILLO: From engineering practice what distance would there have to be for safety between the centre line and the ditch on a natural gas pipeline and the centre line and the ditch of a crude oil line?

MR. CLUTE: Based on the result of some of the testing and the blow-outs of the Trans-Canada line, I would want it at least 100 feet away.

THE CHAIRMAN: Would you tell me, please, what is the maximum developed diameter pipe that is available in Canada; manufactured in Canada?

MR. CLUTE: I believe the largest that has been manufactured to date is a 36-inch but, I understand, Welland Tubes Mill can go up to 42 inches.

THE CHAIRMAN: Would it be, in your opinion, correct to state if a new pipeline were built to Montreal and Western Canada that all of the pipe could be obtained in Canada?

MR. CLUTE: Yes, sir, it could, dependent on the required schedule of deliveries.

THE CHAIRMAN: Within a two-season construction period.

MR. CLUTE: That would, I believe, take up more than the mill capacity but Welland Tube have a large capacity pipe -- but I am not sure.

THE CHAIRMAN: But for all practical purposes substantially all of it could be purchased in Canada.

MR. CLUTE: Yes, sir.

THE CHAIRMAN: Mr. Weldon, would you be good enough to tell us what percentage your maintenance and control of your line is of your operating expenses?

MR. WALDON: I can get the figure for you: approximately, 22% of our operating expenses, depreciation and interest, taxes other than income taxes.

THE CHAIRMAN: Well, your operating expense item of $7,082,000, 1957, I was taking that. That is exclusive of taxes, depreciation, interest.

MR. WALDON: 22%.

THE CHAIRMAN: 22%, thank you. Your major subsidiary company is the Lakehead Company, is it not?

MR. WALDON: That is correct.

THE CHAIRMAN: Do you publish a legal

balance sheet for Interprovincial Pipe Lines or Lakehead Company or both?

MR. WALDON: An annual report is published by Interprovincial which contains consolidated accounts.

THE CHAIRMAN: I asked you whether you issued a legal balance sheet for either of those companies?

MR. WALDON: They are prepared by our auditors but they are not given to the shareholders.

THE CHAIRMAN: They are not published. Would you be good enough to file with the Commission your legal balance sheet and profit and loss accounts for Interprovincial and Lakehead for the years 1957, 1956, 1955 and 1954.

MR. WALDON: Do you want a consolidated statement?

THE CHAIRMAN: I think we can get the consolidated statement from your annual reports; isn't that correct?

MR. WALDON: I meant a consolidating statement, leading up to the consolidated statement.

THE CHAIRMAN: If you have it, that would be fine.

MR. WALDON: We would be pleased to.

THE CHAIRMAN: Now, am I correct, Mr. Waldon, that your barrel miles in millions was down some 6 million in 1957 as against 1956?

MR. WALDON: That is correct.

THE CHAIRMAN: But your revenues held substantially the same?

MR. WALDON: No, sir, they were down some $700,000.

THE CHAIRMAN: Well, let's come down to the bottom figure, net income. Net income was down less than $200,000; is that correct?

MR. WALDON: That is correct.

THE CHAIRMAN: And as I gather from the evidence, your throughput, which would mean your barrel miles, again for the first quarter of this year is down as against the first quarter of last year.

MR. WALDON: No, they are up, sir, as a

result of the extension to the Toronto area; that had a marked effect on our operations.

THE CHAIRMAN: And that would account for your increase in your first quarter's earnings in 1958 over 1957?

MR. WALDON: That is correct.

THE CHAIRMAN: I think, gentlemen, that we can adjourn. Mr. Warterfield will be here after lunch, Mr. Pattillo.

MR. PATTILLO: Yes.

THE CHAIRMAN: Gentlemen, we will adjourn and reconvene in this room at 2 p.m.

---Whereupon the hearing adjourned at 12.25 p.m.

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---On resuming at 2 p.m.

THE CHAIRMAN: Gentlemen, the Commission will now resume its hearing.

Mr. Pattillo?

MR. PATTILLO: Mr. Chairman, if the Commissioners have finished the questions that they wish to ask, I understand from Mr. Frawley that he wants to ask some questions.

THE CHAIRMAN: Mr. Frawley.

MR. FRAWLEY: Mr. Johnston, on page - perhaps you could tell me where this stock ownership appears. Page 30, is it?

MR. JOHNSTON: Page 30, sir.

MR. FRAWLEY: There I see that you show Imperial owns 33.22% of your company, British American Oil Company Limited 7.12%, and Canadian Oil Companies Limited 1.98%. I wonder if you knew that some very fine people are claiming relationship with you too. I wonder if you knew that the Jersey company distinguishes you by listing you among their principal affiliates.

MR. JOHNSTON: I have seen that statement in this year's report, I haven't seen it in last year's report.

MR. FRAWLEY: This is the 1957 annual report, page 18, and in the list of principal affiliates they show in Canada Imperial Oil 70%, Interprovincial Pipe

Line 23%, and Trans Mountain 6%. I suppose that that 23% is just a piece of arithmetic.

MR. JOHNSTON: I believe that is figured on Jersey's participation in Imperial Oil. I think it is 67% of 33%, something like that.

MR. FRAWLEY: But it does put you into the Jersey family, doesn't it?

MR. JOHNSTON: Yes, on that basis.

MR. FRAWLEY: And in that same family is the Creole Petroleum of Venezuela.

MR. JOHNSTON: Yes. I believe the Creole is much closer, I would say, than Interprovincial. I would say that Creole may bear the same relation to Jersey as it does Imperial. We might be considered one step removed.

MR. FRAWLEY: Now, Creole exported to Canada in 1957 33,893,000 barrels. Now, that just shows as the destination the Creole crude oil and refined products. I am wondering if you know enough about the operations to say whether that is all crude or mostly all crude.

MR. JOHNSTON: I would have no knowledge of that at all, Mr. Frawley.

MR. FRAWLEY: If it were all crude, I just wanted to compare the importance of it. I am reading from the Creole statement of 1957: "Crude oil exported to the United States was 64,900,000 barrels as against Canada's 37,000,000", and as far as Canada

[illegible]

is concerned, do you know of any other destinations except Montreal and Halifax for Venezuelan crude?

MR. JOHNSTON: No, sir, I do not.

MR. FRAWLEY: I mean Creole crude?

MR. JOHNSTON: No.

MR. FRAWLEY: Now, whether or not Creole is an exporting company or otherwise -- I read that same paragraph from the same 1957 statement: "In 1957, 93% of Creole's production was sold for export from Venezuela to markets throughout the world and the remainder was sold in Venezuela for local consumption and as ships' bunkers." So it is, of course, almost exclusively an export-producing company. Now, I put it to you that it is very difficult to examine your entry into the Montreal market or your investigations of the Montreal market except in the setting that for every barrel you would put in there of Alberta crude you would be displacing crude from one of your associate companies.

MR. JOHNSTON: That would be true, sir, but again I would like to emphasize the position that Interprovincial would have to take that on solely as a company engaged in the transportation of petroleum.

MR. FRAWLEY: Except that there isn't anything at all wrong about your having regard to the interests and the policy of a company that owns you one-third. Is that not a reasonable assumption?

MR. JOHNSTON: I think that is true, but, on the other hand, I think I may also say that Imperial, the 33% interest in Interprovincial is creating no difficulty than any other shipper in our line.

MR. FRAWLEY: Speaking of the relationship of Imperial to Jersey, I wonder if you can throw any light on this particular paragraph I take from page 15 of the last Jersey report: "In addition, at December 31st, 1957, Imperial Oil Limited was obligated to provide funds totaling $106,000,000 in the event that Interprovincial Pipe Line Company, Trans Mountain Oil Pipe Line Company, or the Portland-Montreal pipeline companies are unable to meet certain outstanding debt obligations." To what does that refer?

MR. JOHNSTON: I would say that, as far as the Interprovincial portion of that is concerned, it would bear on the throughput agreement which was submitted in our brief and which was commented on this morning. Now, I don't know how the dollar would work out on that, but a portion of that would be the portion of Interprovincial's debt that they would be obliged to service. It shows, I believe, as a contingent liability in the financial statements of those companies.

MR. FRAWLEY: While we are talking about the throughput agreement, looking at page 42 of your brief, there is a figure there in paragraph 3 of the

agreement: "....an average daily throughput for such calendar year of 59,673,000 barrel miles."

MR. JOHNSTON: Yes, sir.

MR. FRAWLEY: I am told that that amounts to about 33,000 barrels per day; is that about right?

MR. JOHNSTON: Yes, sir, I believe that is the figure.

MR. FRAWLEY: That is not a very significant barrelage when we are talking about endeavouring to get the Montreal market.

MR. JOHNSTON: It has become more insignificant each year as our throughput has grown.

MR. FRAWLEY: So it is more insignificant than it was and will probably continue to be more insignificant.

MR. JOHNSTON: Quite so.

MR. FRAWLEY: So it isn't anything to talk about in regard to Imperial's inability from a contractual standpoint of participating in the Montreal market?

MR. JOHNSTON: No, except that it is a liability on their balance sheet until such time as the bonds are retired.

MR. FRAWLEY: And, of course, by its terms it only applies to transportation as far as Sarnia.

MR. JOHNSTON: Yes, on our first financing.

MR. FRAWLEY: Now, Mr. Johnston, by virtue of the way in which your evidence was given, and it

dealt with many things here and there, I may as well ask you something right now. Home Oil put in a figure of 51.8¢ at which they said they could deliver Alberta oil to Montreal through a 30 inch line. That is what you understood, isn't it?

MR. PATTILLO: On an average, fifth year average.

MR. FRAWLEY: But it is an average which would commence from the beginning of operation.

MR. JOHNSTON: I understood that was an average for the first ten years.

MR. FRAWLEY: But it was a figure which was going to commence from the first day of operation?

MR. JOHNSTON: That was my understanding.

MR. FRAWLEY: Now, the figure you have given us - and I want to be clear about this - is 70¢ to Montreal. Will you tell me again, what is that 70¢?

MR. JOHNSTON: I think I said about 70¢.

MR. FRAWLEY: And that is from Edmonton to Montreal?

MR. JOHNSTON: That is correct.

MR. FRAWLEY: And Mr. Clute this morning gave us three alternate pipelines. To which one would the 70¢ apply? Would it apply to all?

MR. JOHNSTON: It would apply to two of the routes, the one through the Sault and the so-called extension of the present system, and approximately 73¢ would be the rate on the all-Canadian or Northern

route.

MR. FRAWLEY: It would be 73¢ building from Cromer eastward generally following the Trans-Canada gas line?

MR. JOHNSTON: Yes.

MR. FRAWLEY: And it would be 70¢ via the Sault?

MR. JOHNSTON: Yes.

MR. FRAWLEY: And the other one is using your own facilities to Sarnia and it is building a separate line to Montreal, and that also would be 70¢. So that we can compare the 51.8¢ with the 70¢ or the 73¢?

MR. JOHNSTON: Yes.

MR. FRAWLEY: Apropos that also, would you look at the Montreal pipeline, page 36. There is a paragraph I have been instructed to ask you about. "The estimated investment required for the modification and extension of the Interprovincial facilities with capacity to provide for a 200-250,000 barrels per day market at Montreal could be up to $240,000,000." Now, would you first, please, Mr. Johnston, fit that paragraph into the evidence Mr. Clute gave us this morning with his three pipelines?

MR. JOHNSTON: Mr. Clute has those figures right there. May I ask him to substitute, sir?

MR. FRAWLEY: Yes, fine.

MR. CLUTE: Mr. Frawley, that $240,000,000.

figure was a very, very preliminary figure via the Sault which, as we now look at it, is now $253,000,000.

MR. FRAWLEY: There is something else I would like to bring to your attention. You gave us, Mr. Johnston, some reserve capacity figures.

MR. JOHNSTON: Yes, sir.

MR. FRAWLEY: 88,000 barrels in the Edmonton to Regina section, 147,000 in the Regina to Cromer section, 108,000 in the Cromer to Gretna section, 157,000 in the Gretna to Clearbrook section, 180,000 in the Clearbrook to Superior section, 72,000 in the Superior to Sarnia section, and 68,000 in the Sarnia to Port Credit section. Now, as to what date are those figures to be taken?

MR. JOHNSTON: April 1st.

MR. FRAWLEY: Now, can you give me an estimate of what the average 1958 figures would be for those same sections?

MR. JOHNSTON: Mr. Frawley, we have some construction planned for this season which will make some modifications in our system. At the end of 1958 - I think that is the information you are asking for - after taking into consideration the additional loops that we are putting into the system now, those figures become - you have Edmonton to Regina, 128,000; Regina to Cromer, 200,000; Cromer to Gretna, 157,000; Gretna to Clearbrook, 157,000; Clearbrook to Superior, 188,000; Superior to Sarnia, 121,000; Sarnia to Port

Credit, 70,000.

MR. FRAWLEY: Yes. I put it to you, Mr. Johnston, that if you just left those figures on the record as you gave them yesterday I am instructed by the Conservation Board engineers that that 88,000 barrel reserve for Edmonton to Regina would disappear in about July or August of this year.

MR. JOHNSTON: A little bit later than August. Yes, it would be away by the end of the third quarter.

MR. FRAWLEY: And then you would have to adjust all of the remaining figures.

MR. JOHNSTON: Yes, that is so. This was the situation as of today, and this spring we will be adding the loops, and, based on today's pumpings as we see them, those are the latest reserve figures as I have given them.

MR. FRAWLEY: And as you will experience them during the 1958 shipping season, you couldn't hope to supply the Montreal market, could you?

MR. JOHNSTON: I would certainly be very pleased to see those reserve figures disappear.

MR. FRAWLEY: But when they disappear, that just puts you out of the picture as far as supplying the Montreal market is concerned with your present facilities.

MR. JOHNSTON: That is right, with these throughputs.

MR. FRAWLEY: And you have never intended to supply the Montreal market with your existing facilities?

MR. JOHNSTON: No, sir.

MR. FRAWLEY: You do realize that trying to supply the Montreal market requires eventually a new line from Edmonton to Montreal.

MR. JOHNSTON: That is true, sir.

MR. FRAWLEY: And I suppose again, in fairness to you, you feel that that is what you are going to have a little later on?

MR. JOHNSTON: If anybody builds this line and it becomes a practical thing, I think Interprovincial will be the vehicle to do it, sir.

MR. FRAWLEY: When did you first start thinking about serving the Montreal market?

MR. JOHNSTON: I would think possibly -- it has been discussed, I would say, for about a year, with any degree of seriousness.

MR. FRAWLEY: With whom did you discuss it seriously during the last year?

MR. JOHNSTON: I think it has been discussed within our own organization.

MR. FRAWLEY: Well, your own organization -- let us look at the Board of Directors. Mr. Carson represents what company?

MR. JOHNSTON: Imperial Oil Limited.

MR. FRAWLEY: Mr. J. W. Hamilton? Don't tell me. That is Imperial Oil Limited.

Mr. Johnston represents himself.

Mr. Lance?

MR. JOHNSTON: Imperial Oil.

MR. FRAWLEY: Mr. Lofney; he is British-American Oil?

MR. JOHNSTON: Yes.

MR. FRAWLEY: Mr. Moore, Imperial Oil.

Mr. Harold Ray represents Canadian Oil Companies and Mr. D. R. Walker represents who?

MR. JOHNSTON: Wood, Gundy.

MR. FRAWLEY: And Mr. R. H. Reid represents --

MR. JOHNSTON: London Life Insurance Company. He is the president of London Life Insurance Company.

MR. FRAWLEY: Are they large stockholders, the London Life?

MR. JOHNSTON: No, sir.

MR. FRAWLEY: After you discussed this with those four Imperial directors, what encouragement did you get from them to further your plans to investigate the Montreal market?

MR. JOHNSTON: I cannot say that we have ever been very much encouraged. I think the thing has been developed and brought up to its present stage.

MR. FRAWLEY: Well, Mr. Johnston, I don't want to even pretend to be coy about it. The Imperial Oil Company is opposed to the building of pipelines to serve the Montreal market, isn't it, from written words which have been filed here? So I put it to you, frankly, and I find it difficult to investigate too seriously or to examine too seriously your proposal to go to the Montreal market when the firm that owns you one-third is opposed to it.

Now, take me out of that confusion in my

mind, Mr. Johnston, please.

MR. JOHNSTON: I wish I could, Mr. Frawley.

MR. FRAWLEY: Well, perhaps you could start with yourself, Mr. Johnston.

MR. JOHNSTON: May I say, again, that I do not like to labour this point, but I do think it is very important in our particular company.

We have said that throughout any discussions on the Montreal market that, in our opinion, the only way this line can be financed is through a throughput agreement from the various shippers or manufacturers in that area. We have looked at it solely from that standpoint. Now, whether we would be able to get a throughput agreement from any of these companies manufacturing or refining in the Montreal area remains to be seen, but that is, really and seriously, the basis on which Interprovincial has regarded that project.

MR. FRAWLEY: And I think that is a perfectly fair and serious answer, Mr. Johnston.

You say you would have to have throughput agreements before you could build or expand the line from Cromer to Edmonton and Montreal?

MR. JOHNSTON: Yes, sir.

MR. FRAWLEY: You havenever actually canvassed that, have you?

MR. JOHNSTON: No.

MR. FRAWLEY: It would not be sensible

for you to go to the manager of the Imperial refinery and talk to him about a throughput agreement.

MR. JOHNSTON: I don't think I would get very far.

MR. FRAWLEY: You know, because of the fact that you have four Imperial directors on your Board, you know what they think about giving you firm throughput agreements for the Montreal market, don't you?

MR. JOHNSTON: You are probably right.

MR. FRAWLEY: Then it seems to me that you are stopped before you start, as far as any independent, free examination of canvassing the possibility of putting Alberta crude into the Montreal market.

What do you think about that?

MR. JOHNSTON: I think these companies that are in the Montreal market are large companies. I am quite sure that they have the entire interests of Canada at heart and, as they have done in the past, I am sure they have done many things which do not fit into their normal form of business which have been of assistance to various parts of the country. I think possibly this may be considered in that category.

I cannot state, from the standpoint of the economics, as to the particular oil companies,

because that is their own business.

MR. FRAWLEY: Mr. Johnston, I take second place to no one in my admiration of Imperial Oil Company and everything they have done for Canada and for my own Province of Alberta, also helping themselves while they were helping Alberta.

But the fact is that, looking at it from the standpoint of Interprovincial Pipe Line Company, what bothers me is how we can regard you as a free agent to investigate seriously and contemplate seriously and make serious plans for the putting of Alberta oil into the Montreal market, when Imperial Oil, in its wisdom and having in mind its notions about the good of Canada, feels that Alberta oil should not go there.

Now, do I put my problem in a fair way?

MR. JOHNSTON: Certainly.

MR. FRAWLEY: Then I put it to you that we have to look elsewhere for someone to build the line into Montreal.

MR. PATTILLO: Mr. Chairman, I do not think, with respect, that Mr. Frawley _is_ being fair, because--

THE CHAIRMAN: We have not heard from Imperial Oil.

MR. PATTILLO: No, no; but, on the evidence we have right now, Mr. Clark, who gave evidence for Home, made it very clear that you could not finance this line unless you had throughput

agreements either imposed by the governments or voluntary. I do not think, therefore, it is a question of looking elsewhere. It is a question simply of finding whether you are going to have throughput agreements, voluntarily or otherwise.

THE CHAIRMAN: I think, Mr. Johnston -- and with all due respect, Mr. Frawley -- that the question is a little unfair, because we have not yet heard from Imperial Oil. The Commission does not know the statements to be true that you, Mr. Frawley, are putting in Mr. Johnston's mouth that this 33 1/3% shareholder in his company is against having Alberta oil go to the Montreal market.

MR. FRAWLEY: Mr. Chairman, I certainly do not want to be unfair. I was not endeavouring to put Home Oil into the building of a pipeline to Montreal, to the Montreal market, because I realize what Mr. Clark said about the difficulties; so, as far as that is concerned, Home Oil is not in there, either. I was trying to do one thing at a time. I was endeavouring to find out whether Interprovincial could be regarded as a company that could put oil into the Montreal market. The difficulty is there of throughputs and Home Oil may find it just as difficult to get it as Interprovincial.

At the moment, I was directing my attention entirely to Interprovincial.

THE CHAIRMAN: While we are speaking of

this, there is one thing, Mr. Johnston, that I think Mr. Frawley, if we read the record correctly -- at least, this is my recollection of it, and I did not want to stop Mr. Frawley at the time of his questioning -- but I think he got from you more or less of an admission that if Imperial Oil shipped crude from Alberta to Montreal it would have to come over your pipeline. That, to me, was the essence of the admission and I would like that corrected on the record, because I do not think you should be put into the position of giving any kind of legal opinion as to the rights of Interprovincial versus Imperial Oil or the operations of Imperial Oil in this undertaking, and I would like that clear on the record so that it will never stand in the way of any question that might arise.

MR. JOHNSTON: Thank you.

MR. FRAWLEY: Would you like to make a further statement apropos of that, Mr. Johnston, or are you satisfied with what the Chairman said?

MR. JOHNSTON: Yes, sir.

THE CHAIRMAN: I think we would take it as not being an admission, because Mr. Johnston did not have the benefit of legal advice when he made such admission.

MR. FRAWLEY: You do not regard it as your business to search very far and to make any very particular extended investigation of supplying the Montreal market with oil?

Now, the reason I say that is that I want to know whether that is what you meant at the bottom of page 36:

"It will be observed that no attempt is made here "to explain or outline the various economic and "political problems that confront the petroleum "industry in the study of this problem. It is "submitted that the answers to these serious "questions do not lie with the pipe line company."

Now, will you explain that? What are the things that do not lie with the pipe line company?

MR. JOHNSTON: What we had in mind at that point, I believe, was the position of the various companies operating in the Montreal area, their costs for domestic crude versus foreign crude.

The point we wished to make was that, if it is feasible, after those problems are decided by the various shippers, and they are prepared then to give a throughput agreement at that point and it is decided the best thing to do is to move Alberta oil to Montreal, then we would come in on the throughput agreement.

MR. FRAWLEY: When the interprovincial line was built, or on a given day before the interprovincial line was linked with Sarnia, the Sarnia refineries were being supplied with foreign oil, United States oil, and the completion of the Interprovincial line displaced that foreign oil, shut back the foreign oil,

[illegible]

did it not?

MR. JOHNSTON: Yes.

MR. FRAWLEY: That was Midcontinent oil?

MR. JOHNSTON: Illinois and Midcontinent, I believe.

MR. FRAWLEY: Notwithstanding that it was considered to be good policy at that time to put Alberta oil into Sarnia and displace the foreign oil?

MR. JOHNSTON: Yes.

MR. FRAWLEY: Would you care to venture an opinion as to what the difference is between the shutting back of the foreign oil at Sarnia, when the Interprovincial was completed, and shutting back the overseas oil in the Montreal market if a pipeline were built into the Montreal refining area?

MR. JOHNSTON: No, I don't think I can comment on that, Mr. Frawley. It is certainly, looking at it purely from the nationalistic standpoint, it would be a very desirable thing to see Canadian crude used in its own country, particularly as there appears to be a surplus of it.

These other factors, I think, probably far outnumber the difficulty -- the difficulties of reaching Montreal are probably far more than they were in reaching Sarnia.

MR. FRAWLEY: You used the word "nationalistic". That particular word does not appeal to me,

but let us say "national".

We were national in wanting to put our oil into Sarnia, to displace foreign crude, were we not?

MR. JOHNSTON: I presume that was part of it.

MR. FRAWLEY: And we were national, when we wanted it extended, and you would extend it, I suppose to shut back some more of either foreign crude or foreign products?

MR. JOHNSTON: Not necessarily; to remove the tanker shipment from Superior. A great part of that oil is now -- a great part of the crude was moved by tanker from Superior.

MR. FRAWLEY: Let me be clear about it: Did the only displacement take place at Sarnia; was there no displacement at all of any non-Canadian oil following your extension to Port Credit?

MR. JOHNSTON: No, but I believe the Canadian crude has displaced some smaller operations of foreign crude which were run into Toronto.

MR. FRAWLEY: So the situation is, we were following what you might call national motives in building our line to Sarnia and extending it to Port Credit; why not extend it to Montreal on the same sort of national thinking?

MR. JOHNSTON: I think there is a great deal more to it than that, Mr. Frawley. The economic side of it which we, as Interprovincial, have not been prepared to go into because we feel, as we pointed out, that the line can be financed only through the support of the shippers and the other problems lie with that.

MR. FRAWLEY: Now, I was interested this morning in what you said to Mr. Pattillo about Venezuela oil refined in Montreal entering the Ontario market; that is, through the facilities of the Trans Northern Pipe Line.

MR. JOHNSTON: Yes, sir.

MR. FRAWLEY: Now, the people who are doing that are McColl-Frontenac with a refinery, the Regent Refinery at Port Credit.

MR. JOHNSTON: They have a refinery at Port Credit, yes.

MR. FRAWLEY: What crude are they using at Port Credit?

MR. JOHNSTON: They are using partial Canadian crude from our system and, I believe, they still import a little bit of Venezuelan crude. I cannot give you the quantity.

MR. FRAWLEY: How would they bring the Venezuelan crude up?

MR. JOHNSTON: By tanker.

MR. FRAWLEY: By tanker from Venezuela to Toronto to Port Credit.

MR. JOHNSTON: It may be shipped from Montreal, I do not know.

MR. FRAWLEY: Then they also use the products line to send Montreal refined products into the Toronto area?

MR. JOHNSTON: I believe they bring products up, yes.

MR. FRAWLEY: B.A. has a refinery at Clarkson and also one in Montreal; is that not so?

MR. JOHNSTON: That is right.

MR. FRAWLEY: And they, in part, supply their Ontario market with Venezuelan oil refined at Montreal.

MR. JOHNSTON: I do not know that for a fact; I know British-American is part-owner of the

Trans Northern Pipe Line. To the extent that any of these companies are using the line, I really have no firsthand knowledge.

MR. FRAWLEY: The Petrofina Company with no Toronto refinery and with some market in Toronto supplies that Toronto market with Montreal refined crude that they bring in from overseas somewhere.

MR. JOHNSTON: I am told they are dispersed through that line; we have no direct connection or contact with them.

MR. FRAWLEY: What is the situation with regard to Imperial? They have a refinery at Sarnia; do they have a refinery in the Toronto area?

MR. JOHNSTON: No, sir.

MR. FRAWLEY: They do have a refinery in Montreal.

MR. JOHNSTON: Yes.

MR. FRAWLEY: Are they sending Montreal refined products into the Toronto area?

MR. JOHNSTON: To my knowledge, no.

MR. FRAWLEY: Yesterday, I think, or when Mr. Brown was giving his evidence, I think he put some figures on the record that he would have a per hundred barrel mile cost of 2.6. He said, and I want you to check me if I am not understanding his evidence right, that Interprovincial would have a per hundred barrel mile cost of 3.24¢. Did you understand that he used those figures?

MR. JOHNSTON: No, sir, I do not recall those.

MR. FRAWLEY: I was instructed by some of my people that he had put those figures on the record and I was wondering if you would comment.

MR. JOHNSTON: May I check that?

MR. FRAWLEY: Yes.

MR. JOHNSTON: Mr. Frawley, that figure of approximately 70¢ that we have mentioned works out to 3.42¢ so probably that is the figure.

MR. FRAWLEY: That could be the figure. May I ask Mr. Waldon some questions: Mr. Waldon, you were good enough to give me some cost figures yesterday and I have put them on a statement which I will show you and ask you some questions about.

MR. WALDON: Did it turn out to be a mistake that I gave them to you?

MR. FRAWLEY: Either you gave them to me or I took them from you. Now, this statement is intended to compare the money that you get in in tariff rates and the money you have to spend to earn that money. The figure at the top is your composite tariff rate covering all movements, 4.33¢ per hundred mile barrels. Is that correct?

MR. WALDON: That is correct, short haul and long haul.

MR. FRAWLEY: Edmonton to Sarnia rate is 3.67 per one hundred mile barrels. Is that also correct?

MR. WALDON: That is correct.

MR. FRAWLEY: Having those figures to look at, this is what your expenses are for 1955; your operating expenses using the same unit of hundred mile barrels, were .73¢.

MR. WALDON: .73¢.

MR. FRAWLEY: .73 of a cent.

MR. WALDON: Those are the figures I gave you.

MR. FRAWLEY: And your taxes, other than your income tax, .23; depreciation .85; interest on long-term debts, .71. This is for 1955 and that gave you a total of 2.52¢ charged.

MR. WALDON: Correct.

MR. FRAWLEY: And adding your income taxes paid, .48¢ which gives you total expenses and income taxes paid of 3¢.

MR. WALDON: Let us not go over that income tax paid so quickly. Income tax paid -- as you all know, we follow the recommendation of the Institute of Chartered Accountants and defer those taxes that we are able to. The tax provision in 1955 was .92. You are absolutely right, .48 is the amount paid.

MR. FRAWLEY: I have another statement: I took the pains to work your income tax provisions separately. Your income tax provision in 1955 was .92 of a cent.

MR. WALDON: Correct.

MR. FRAWLEY: Whereas, you only paid .48 of a cent.

MR. WALDON: Correct, and will pay in future years the balance.

MR. FRAWLEY: So, if you use your income tax provision instead of what you actually paid, you would add just that much more to expenses and have that much less income.

MR. WALDON: Right.

MR. FRAWLEY: But from the standpoint of the right way, to show income you have up to now in your annual statements and no doubt will continue to still show as your income tax provision, the amount paid and the amount saved by following all the capital cost provisions.

MR. WALDON: We have done that and show that as a deferred liability.

MR. FRAWLEY: I put it to you, if you are endeavouring to make up anything of a rate statement, that the right thing to do is to show only the income tax paid in view of the Privy Council's decision of four or five days ago.

MR. WALDON: I am not aware of the Privy Council's decision.

MR. PATTILLO: Just because the Prime Minister of Canada agrees with you, Mr. Frawley, it does not follow that it is necessarily so.

MR. FRAWLEY: "It ain't necessarily so."

MR. WALDON: Mr. Frawley, you and I have been over this quite often and we just do not agree.

MR. FRAWLEY: Without endeavouring to take up too many pages at so much a page I might, perhaps, be permitted -- I now have some rather important people on my side.

MR. WALDON: It appears to be so.

MR. FRAWLEY: Just going along with me that all you are entitled to charge in there are your income taxes paid, you cut out that total expenses and income tax paid in 1955 of 3¢.

MR. WALDON: Right.

MR. FRAWLEY: Then you paid dividends of .43 of a cent so you have total expenses and dividends 3.43 cents.

MR. WALDON: Correct.

MR. FRAWLEY: Now, if you take your 1957 -- I have shown 1955, 1956 and 1957 but I do not think there is any need to go through all the years, take 1957 and come down to the bottom of it. You have total expenses and dividends, 1957, 3.79 cents per unit.

MR. WALDON: That is correct.

MR. FRAWLEY: Taking that figure and comparing it with your composite revenue, long haul and short haul, you have a surplus over expenses and dividends of about ½¢; .54 of a cent.

MR. WALDON: It appears to be correct.

MR. FRAWLEY: Assuming that the arithmetic

is correct, that is it?

MR. WALDON: Yes.

MR. FRAWLEY: Compare 1957 with the revenue of your Edmonton to Sarnia movement; revenue, 3.67¢. When you compare that figure of 3.67¢ with your total expenses and dividends of 3.79¢, you are short by .12 of a cent, Mr. Waldon. I want you to check those figures and take all the time necessary to look at them and question them but they are your own figures; but as far as adding in your deferred taxes, as well as taxes paid, would only make the figures worse.

MR. WALDON: Are you suggesting we should raise our rates?

MR. FRAWLEY: No, I have got something to suggest about something you said this morning about your rate to Toronto but we will come to that in a moment. I am just pointing this out to you.

MR. WALDON: The answer lies in the short haul carrying a heavier charge per mile than the long haul.

MR. FRAWLEY: We must contemplate this then: if you take oil to Montreal you are not going to be able to make any money on it and you are going to have short-haul shippers, shippers that ship say from Edmonton to Regina or Regina to Cromer or Regina to some of these Minnesota refineries, to make up to you what you cannot make on the long haul.

MR. WALDON: Our statement is, if the line is built to Montreal and we are the ones to build it,

provided we get the necessary throughput, with a rate of around 70¢ per barrel, we do not contemplate raising the short-haul rates.

MR. FRAWLEY: It was a little worse than that: coming to that this morning, did not Mr. Johnston say he thought he would have to reduce the Toronto rate?

MR. WALDON: We were talking about different things.

MR. FRAWLEY: That could be but I was curious about that when I heard Mr. Johnston say this morning with a rate to Montreal of 70¢ he would feel obligated to reduce the rate to Toronto.

MR. WALDON: The present rate to Toronto is 72¢. If this line was built and the rate set at 70¢ from Edmonton to Montreal, it is likely we would reduce the Toronto rate to at least 70¢.

MR. FRAWLEY: Why would you feel you had to do that?

MR. WALDON: We have the right to set that rate; the Board of Transport Commissioners has ruled that we have the right to set the rate. For the purposes of our study we have not considered a rate to Montreal of less than what we would charge Toronto.

MR. FRAWLEY: You have not considered it but were you worrying about long and short-haul discrimination that might result if you did that?

MR. WALDON: This is a personal opinion: I would think if we quoted a rate to Montreal that was

less than the rate to Toronto and as a result products should still move back into the Toronto area, we might be open to a charge of unjust discrimination. This is an artificial situation.

MR. FRAWLEY: I suppose you know there are lots and lots of short-haul instances of discrimination in Canada on Canada's railways.

MR. WALDON: So you have told me.

MR. FRAWLEY: If I told you, you have heard it from one who has lived with it for a long time.

THE CHAIRMAN: Freight rates are not within our terms of reference.

MR. FRAWLEY: No, but the suggestion that they would not want to put an apex at Toronto is what interests me very much.

I put it to you very bluntly, we will get through with the freight rates in a moment, you would have every justification of charging less at Montreal where you are meeting Venezuelan competition and you could leave the Toronto rate considerably higher without offending anything the Board of Transport Commissioners might say to you.

MR. WALDON: Our studies are not based on charging less to Montreal than to Toronto.

MR. JOHNSTON: Mr. Frawley, may I just correct something I said. I said that 70¢ was equivalent to 3.52, I believe. I do not think that

was the reference that was made by the gentleman from Lehman Bros. I just have a copy of the transcript here and what he says is:

"Our feasibility studies show conclusively "that Canadian oil can be transported at a "rate of 2.6 cents per hundred barrel miles. "This compares to the 3.6 cents per hundred "barrel miles currently charged by Inter-"provincial."

In other words, he is taking that figure from our existing system and has not projected it under the Montreal market.

MR. FRAWLEY: What is that 3.6; just expand upon that.

MR. JOHNSTON: 3.6 is per hundred barrel miles for what rate?

MR. FRAWLEY: The whole system.

MR. JOHNSTON: The same thing.

MR. FRAWLEY: Now, would you look at page 30 of your brief, please? I have just a question there again on your stock ownership. Canadian Oil Companies Limited have a stock ownership of 1.98%. In that group which make up 57.68% are there any individuals or organizations, corporations that own more than 1.98%?

MR. JOHNSTON: My recollection of the last shareholders' list which I examined, Mr. Frawley, is that there are no shareholders having in excess of 100,000 shares.

MR. FRAWLEY: No. Now, Canadian Oil Companies owns 100,000 shares?

MR. JOHNSTON: Yes.

MR. FRAWLEY: And you say there is no other single corporation that owns as much as Canadian Oils?

MR. JOHNSTON: Or individual, yes, sir.

MR. FRAWLEY: Now, following up what Dr. Britnell was discussing with you this morning and your relations with the Transport Board, you said that your relations with the Transport Board were very happy ones. I don't want you to say anything else, but I put it to you, Mr. Johnston, that you have had no real acquaintance with the Transport Board. Seriously, you have gone before the Transport Board to get approval of the construction of your main line and a few branch lines in Alberta since that time and you have had one encounter with the International Refinery. That is your sole acquaintance with the Transport Board.

MR. JOHNSTON: Yes, I think that is true, and the contacts, while we have been in the engineering field and getting permits and everything else, have been very extensive and the contacts have been very close and they have gone over a period of years.

MR. FRAWLEY: You mean with the engineering staff?

MR. JOHNSTON: With the staff and the Board.

MR. FRAWLEY: With the Transport Board as a rate regulating body, what experience have you had other than the International Refinery incident?

MR. JOHNSTON: That would be correct.

MR. FRAWLEY: Who would be the people who would file a complaint if there was anything wrong with your rates?

MR. JOHNSTON: Any shipper could complain if he was not satisfied.

MR. FRAWLEY: Now, on page 23 you say - and I want you to correct me if I have a wrong impression - "The following companies are the principal crude oil purchasers." Now, actually speaking of Alberta, how many shippers do you have out of the Edmonton terminal?

MR. JOHNSTON: I will have to get that. The total is about 18 or 19 shippers, but whether they all come from Edmonton, I will have to check.

MR. FRAWLEY: You have 18 shippers altogether?

MR. JOHNSTON: We have 18 shippers, that is a correct figure.

MR. FRAWLEY: And who are those 18 shippers? Would it be too much to put them into the record?

MR. JOHNSTON: Trans Mountain, Royalite, British American, Imperial, Coop. of Regina, Great Northern, Anglo-Canadian, North Star, Lake Superior Refining, Regent Refining, International Refiners, Northwestern Refining, Bay Refining, Dow Chemical - Trans Mountain is not a shipper - Canadian Oil.

MR. FRAWLEY: And you haven't had any of those people ever complain to the Transport Board in regard to your rates?

MR. JOHNSTON: No, sir.

MR. FRAWLEY: Mr. Chairman, I --

MR. JOHNSTON: With the exception of the International Refinery.

MR. FRAWLEY: Mr. Chairman, I would like to offer this document I have in my hand as an Exhibit.

THE CHAIRMAN: What is that, Mr. Frawley?

MR. FRAWLEY: This is the statement I have been discussing, otherwise I am afraid it isn't going to be part of the record formally.

THE CHAIRMAN: Will you please give it to the registrar and we will have it marked.

---EXHIBIT NO. CC-1-1: Statement submitted by Mr. Frawley.

MR. FRAWLEY: And while I am at it, I would like to file the other document, income tax provision of Interprovincial Pipe Line Company.

THE CHAIRMAN: Yes.

---EXHIBIT NO. CC-1-2: Income Tax provision of Interprovincial Pipe Line Company.

MR. FRAWLEY: Now, I just have one more question to ask you, and it has to do with the line of questions asked this morning by Dr. Britnell and answered by Mr. Mathieson. Mr. Mathieson, you put into the record this morning a short statement with regard to the incident where you wanted to transfer from Interprovincial to the Pembina Pipe Line Company a small section of line which had formerly gone into the McColl-Frontenac at Edmonton of 9,271 feet. That is the incident you are speaking of?

MR. MATHIESON: Yes.

MR. FRAWLEY: The Pembina Pipe Line Company wanted to run a batch of crude to see if it was suitable.

MR. MATHIESON: Yes, with the Board's permission.

MR. FRAWLEY: And someone suggested they might have ownership out of it and they turned the lease into ownership?

MR. MATHIESON: Yes.

MR. FRAWLEY: Before the Pembina Pipe Line Company could lease that 9,000 feet of line from you they had to make an application to the Board of Transport Commissioners at Ottawa to approve that leasing.

MR. MATHIESON: Interprovincial made application to the Board for approval of leasing.

MR. FRAWLEY: And then it was decided to turn it into an outright transfer, but further approval of the Board of Transport Commissioners had to be obtained to have it validated.

MR. MATHIESON: Yes.

MR. FRAWLEY: And that all had to do with 9,271 feet of 8 inch pipeline situate in close proximity to the Interprovincial tank farm, so that it might also called part of the Interprovincial tank farm and Trans Mountain and McColl-Frontenac tank farm area.

MR. MATHIESON: I wouldn't agree with that. It was completely separate from the tank farm. Practically all of them are outside the Interprovincial tank farm.

MR. FRAWLEY: Is that a sketch of it?

MR. MATHIESON: It looks correct to me. Outside of the Interprovincial tank farm there is 9,271 feet, and there was an extra footage down there.

MR. FRAWLEY: I don't know what it would be in miles or half miles, but the whole enterprise was within a mile of Interprovincial.

MR. MATHIESON: Yes.

MR. FRAWLEY: Even closer than that?

MR. MATHIESON: Well, across the road.

MR. FRAWLEY: Now, Mr. Mathieson --

MR. MATHIESON: Excuse me, Mr. Frawley, I want to explain that it was completely separate from the tank farm.

MR. FRAWLEY: Now, having in mind what was involved in that small transaction, I put it to you as solicitor of the Interprovincial Pipe Line Company whether you don't think it is too bad that Interprovincial had to go to Ottawa to get approval of that sort of thing rather than go to --

THE CHAIRMAN: I don't think Mr. Mathieson should be asked that question. It may be that on his advice they did that.

MR. FRAWLEY: You are quite right. I think it is a good example of the thing that Dr. Britnell was discussing this morning.

Mr. Mathieson, let me put one more thing on the record. All this was because Interprovincial was a federal entity and that that line originally, the one we are talking about that Pembina wanted to buy from you, that 9,000 feet of line has been originally constructed only after the Board of Transport Commissioners had given approval.

MR. MATHIESON: That is correct.

MR. FRAWLEY: And that it was because of the fact that Interprovincial is a federal entity and subject in all respects and in all of its enterprise to the jurisdiction of the Board of Transport Commissioners.

MR. MATHIESON: That is right. We couldn't split it up if it was only 9,000 feet.

MR. FRAWLEY: And if it was only 10,000 feet you wanted to sell to one of your neighbours, you would have to go to Ottawa to get the approval of the Board of Transport Commissioners.

MR. MATHIESON: That is right.

---A short recess.

THE CHAIRMAN: Gentlemen, the Commission will now resume its hearing.

MR. FRAWLEY: Mr. Chairman, I would like to ask one more question, please, of Mr. Johnston.

THE CHAIRMAN: I certainly can't stop you, Mr. Frawley.

MR. FRAWLEY: Thank you. You are very kind.

Mr. Johnston, or Mr. Clute, you have said you would build a 26-inch line into the Montreal market, and I was wondering what the significance of that was as against Home's idea that it would probably build a 30-inch line.

Does that indicate you are any less optimistic than they are about the growth down there?

MR. CLUTE: Yes, it does.

MR. FRAWLEY: You have not got the optimism they have, that a 30-inch line would be warranted?

MR. CLUTE: That is correct, sir.

MR. FRAWLEY: You also indicated today that you would start out with 280,000 barrels maximum capacity, but you could increase that to 350,000 barrels. That is with maximum boosting?

MR. CLUTE: That is correct, sir, if you find the market was going to be in the neighbourhood of 350,000 barrels, you would not

put in a 26-inch line to start with.

MR. FRAWLEY: What would you put in?

MR. CLUTE: 30 or 34-inch.

MR. FRAWLEY: Having in mind your judgment and putting in a 26-inch line, you say, having put that in, you could go up to 350,000 barrels a day?

MR. CLUTE: Approximately that.

MR. FRAWLEY: I am instructed that would mean about 30 to 35 pumping stations to do that.

MR. CLUTE: That is approximately correct.

MR. FRAWLEY: I put it to you that that might -- I just want your observations on whether or not that would be such an increase in cost that it would warrant an increase in your tariff rate.

MR. CLUTE: I can't answer that directly, sir, but I would think that, with the increased volumes, that would not be the case.

MR. FRAWLEY: But without further examination, you would not be prepared to challenge that, exactly, would you?

MR. CLUTE: I would say I would not think that would be the case.

MR. FRAWLEY: I am instructed that it would so increase your operating costs as to distort them in comparison with your capital costs.

MR. CLUTE: It certainly would not be the most economical way to go.

MR. FRAWLEY: Well, Mr. Waldon, might I

add one more thing about Exhibit CC-1-1; that is, your expenses versus your revenues.

There is nothing in these costs at all for any rate of return?

MR. WALDON: You are referring --

MR. FRAWLEY: I think it is called Exhibit CC-1-1.

MR. WALDON: The 4.33¢ is our average revenue per 100 miles per barrel, so it certainly includes a profit.

MR. FRAWLEY: Let me put to you what I have in mind: Compared with the Edmonton to Sarnia rate of 3.67¢, there this statement indicates that you have a minus .12 of a cent deficit. Now, that is without allowing you anything for a rate of return or a surplus over and above your dividend. That is so, isn't it?

MR. PATTILLO: I don't want to have the record incorrect, but surely a dividend is a rate of return, isn't it?

MR. FRAWLEY: Oh, well, not where I come from.

You are entitled to your expenses; you are entitled to your fixed charges; you are entitled to your dividends and you are entitled to something else over and above that, aren't you?

MR. WALDON: The per one hundred mile rate to Sarnia works out at 3.67¢. Our average costs work

out to 3.05¢, in 1957. I would say the difference between those two figures allows for a rate of return.

MR. FRAWLEY: All right. That is precisely what we are talking about. The 3.05¢ allows your possible expenses, including the income tax which you have paid. It allows you nothing for dividends and nothing for a surplus, so unless you do not think you should have a surplus..you are at .12 of a cent of a deficit when you are comparing what you spend against what you receive to your rate from Sarnia. Now, that is all. Just correct me if I am wrong.

MR. WALDON: I am afraid I do not follow you. I see your figures. You end up with minus .12.

MR. FRAWLEY: You see how the minus is arrived at?

MR. WALDON: I see how the minus is arrived at. I don't know exactly what it proves, though.

If you are endeavouring to get me to say that we lose money on shipments to Sarnia, I certainly am not going to say that, because it is not the case.

MR. FRAWLEY: You say it is not the case?

MR. WALDON: Certainly not.

MR. FRAWLEY: Because you get more than 3.05?

MR. WALDON: Yes.

MR. FRAWLEY: And you say that because you get more than 3.05 you are not losing money?

MR. WALDON: How can you be losing money, if you get 3.67 and your expenses, including taxes, are 3.05?

MR. FRAWLEY: Would you be satisfied if you got only 3.05 without anything for a dividend or anything for a surplus?

MR. WALDON: Oh, no.

MR. FRAWLEY: That's fine. Thank you.

THE CHAIRMAN: Thank you, Mr. Frawley. Mr. Pattillo?

MR. PATTILLO: Mr. Chairman, if Mr. Johnston and the others would just temporarily step down and Mr. Warterfield could come forward.

Mr. Warterfield, you presently reside and have your place of business in Dallas, Texas?

MR. WARTERFIELD: That is correct, sir.

MR. PATTILLO: You are a graduate of, if I recall it, the University of Oklahoma?

MR. WARTERFIELD: Yes, sir.

MR. PATTILLO: Graduated in 1920?

MR. WARTERFIELD: 1920.

MR. PATTILLO: And, since that time, have you been engaged in the oil business exclusively?

MR. WARTERFIELD: Yes, sir.

MR. PATTILLO: When was your first

association with the oil pipeline business?

MR. WARTERFIELD: 1923.

MR. PATTILLO: And at the present time are you carrying on business for yourself?

MR. WARTERFIELD: I am in private consulting business.

MR. PATTILLO: How long have you been in the consulting business?

MR. WARTERFIELD: Eleven years.

MR. PATTILLO: During those eleven years in what countries have you engaged in the consulting business regarding oil pipelines?

MR. WARTERFIELD: South America.

MR. PATTILLO: What parts of South America?

MR. WARTERFIELD: In Venezuela and in Colombia.

MR. PATTILLO: Yes?

MR. WARTERFIELD: Also, of course, in the United States, and in Canada and in Europe and in India.

MR. PATTILLO: Now, could you help the Commission out by explaining to us, in your experience, the general practice that is followed in the United States, for example, in determining tariffs for oil pipelines? Would you explain, in doing that, if there is a formula used, what the base is that is used, what is considered a reasonable

rate of return and also would you mind developing this theory of telescoping rates when that is employed, and why?

MR. WARTERFIELD: Mr. Pattillo, before I do that, I am not quite certain I understand your term "telescoping".

MR. PATTILLO: Well, it is not my term. It is Mr. Levy's term. However, as I understand it, the short haul rate is more than the long haul, and the further route you go on the line, the lower the rate per mile is to that destination.

MR. WARTERFIELD: I see, sir. So far as I know, there is no prescribed mathematical formula for the determination of a point of origin to multiple points of destination of a crude or refined petroleum product pipeline. It became necessary, due to the large number of questions which the company for whom I was working at the time was being asked, back in 1932 and 1933, and immediately the evaluating orders of the Interstate Commerce Commission were served on the common carriers, more attention than ever was focussed on the carriers' tariff rates, and in association with a man by the name of S. L. Westlake, who is now chief engineer and on the Board of Directors of Magnolia Pipe Line, we worked out a basic formula which recognizes the essential elements of a rate structure necessary to determine a composite system rate when there is more than one point of origin

and/or more than one point of delivery.

We have made use of that formula quite extensively and, when the composite rate is determined, given certain initial conditions, that is, the fair value of the property being used having then been determined, the operating costs and other charges, either paid or provided for, depreciation, taxes and interest on any debt that might be involved, the percent desired net return, after income taxes, then that composite rate might be used for those conditions.

Once that is done it is an extremely difficult, if not an impossible mathematical formula, the procedure of determining the components of that composite rate, so we are forced to use a tool of experience which is obtained by taking all of the mileage to the point of origin to destination rates, and placing those on a graph and charting the trend of the curve that those rates will produce, and it is interesting to note that four curves, a family of four curves, hyperbolic in character, will encompass 97% or even better of all the transportation rates of a common carrier, by pipeline, for crude oil and refined products in the United States today.

Having that information and knowing our point of origin and destination on our new pipeline system that we would develop rates for, we can

enter that charge and use our best judgment in selecting consistently, along in one curve, those point of origin to destination rates. We then extend that rate by the number of barrels to be delivered at that destination within a year's period, the sum obviously being the total revenue received.

You can then, by inspection, having first known the composite rate and the amount of gross revenue to be received, tell whether the second figure is greater or lesser than the first. If it produces a greater amount of revenue, quite obviously, at point of origin to destination rates, those figures are too high for the volumes. If it is too low, then your rates are too low and you must adjust it again.

That is as far as I know you can go in the mathematical guide approach to establish the tariff rate, and it is at this stage that negotiations and the influences of competitive modes of transportation by other methods take over.

MR. PATTILLO: Now, in the United States, there is a regulatory body which approves the rates on the oil pipeline carriers, is that right?

MR. WARTERFIELD: Not exactly, Mr. Pattillo, in that they receive formal approval. A rate may be filed with the Interstate Commerce Commission on the one day or ten day or thirty day notice period,

but within the thirty day period any intervenor has the right to appear and to protest that rate. If he is protesting, the rate is not issued, although it may be operative on a one day emergency basis. It merely calls for a hearing before the Commission, wherein the carrier and the intervenor appear, each presents his own side of the matter; but, to receive formal approval, I do not believe that is done.

MR. PATTILLO: When there are interventions and hearings are available, has it been your experience that the regulatory body in the States follows the method which you have just outlined in determining whether or not the rate being charged or being requested is reasonable and proper?

MR. WARTERFIELD: I do not believe they followed the method of establishing a rate; they start with the rate submitted and they examine it in the light of the service that that rate is performing to the public.

MR. PATTILLO: What, in your experience, is generally used by the pipeline carriers in the United States as being a fair rate of return after all charges including taxes.

MR. WARTERFIELD: Our Consent Decree says a 7% rate is not unreasonable. Therefore, it must be concluded that 7% is a reasonable rate although it is certainly not guaranteed.

MR. PATTILLO: Have you had any experience as to what happens if a pipeline carrier in the United States is earning a rate of more than 7% of its capital employed?

MR. WARTERFIELD: The Consent Decree, as I recall it, further provides that funds in excess, or the earning in excess, of 7% are frozen and while they may be reinvested they may not be utilized on which to earn a rate of return.

MR. PATTILLO: Using this 7% rate of return, what is the basis on which it is applied?

MR. WARTERFIELD: That is the fair value of the property owned and used for common carrier purposes.

MR. PATTILLO: That would be the original cost less depreciation of the plant; when I use the word, I mean the whole undertaking of the pipeline carrier.

MR. WARTERFIELD: I think a better way, perhaps, to state it would be one of reproduction cost, new, at any given period less actual depreciation to which is then added other elements of value; namely, lands and rights-of-way, working capital and, perhaps, some allowance for a going concern.

Mr. Pattillo, with the kind permission of everyone concerned, would I be out of order if I should read into this record something of which I have a very high regard and it is the decision of the United States Supreme Court dated March 7, 1898 in the Smyth versus Ames case. Are you familiar with it?

MR. PATTILLO: Go ahead.

MR. WARTERFIELD: "How just compensation for the services rendered by a utility '.....may be ascertained, and what are the necessary elements in such an inquiry, will always be an embarrassing question.....'

'We hold, however, that the basis of all calculations as to the reasonableness of rates to be charged....must be the fair value of the property being

used....for the convenience of the public.'

'What the company is entitled to ask is a fair return upon the value of that which it employs for the public convenience.'

'On the other hand, what the public is entitled to demand is that no more be exacted from it... than the services rendered....are reasonably worth.' "

MR. PATTILLO: One thing I am not clear about at all from what you have just quoted is this: supposing you have a pipeline which has invested \$200 million which includes land acquisition, construction of line, pumping stations, etc. and that \$200 million was acquired, all but \$25 million, by borrowing at a rate of 3%. Now, in determining the rate of return, 7%, do you arrive at the 7% only after you have made provision as a cost for the payment of the 3% interest and the sinking fund requirements?

MR. WARTERFIELD: The repayment of debt, principal and -- is that what you are talking about when you say "sinking fund requirements"?

MR. PATTILLO: Yes.

MR. WARTERFIELD: That 7% becomes available for debt repayment but only the interest is charged as an expense.

MR. PATTILLO: It is charged as an expense and the operating costs are charged as an expense?

MR. WARTERFIELD: Yes, sir.

MR. PATTILLO: And the normal tax and income tax?

MR. WARTERFIELD: Yes, sir.

MR. PATTILLO: And then for the equity holders who have put up $25 million they are generally entitled, as seen in the United States, to a return of 7% on the whole $200 million.

MR. WARTERFIELD: The 7% gross return or net return, I should say, after taxes is available for the repayment of debt for the distribution in the form of dividends or it may be retained for additions to plant.

MR. PATTILLO: So when you are talking about that 7% figure, you are talking about the same thing Mr. Johnston was talking about as a figure representing 4 point some percent.

MR. WARTERFIELD: I believe so, sir.

MR.PATTILLO: Those are all the questions I would like to ask.

THE CHAIRMAN: I would like to ask Mr. Warterfield this: is that on the same formula that would be applied by the Federal Power Commission in fixing electricity rates in the United States?

MR. WARTERFIELD: I am very sorry, I am unable to give you any help on that line; my entire experience of thirty-five years has been with nickel products line and I know nothing of the gas industry other than paying my bill at the end of the month.

THE CHAIRMAN: Perhaps I will get it another way: it surprises me you would say reproduction costs as being fair value. Is it not historical costs or actual costs less depreciation?

MR. WARTERFIELD: No, sir; the value of the plant being used at the time in question. For example, the valuation order served on carriers in December 31, 1934 took into account and recognized historical cost but there was a physical inventory and property interests within each common carrier by pipeline and those were all valued by trend and index prices to December 31, 1934 and the service life to date were all determined and the total service life of the units of the property were agreed upon giving that percentage to that property and the reproduction cost valued new as of December 31, 1934 for a plant which was built, let us say, in 1902 was greater, historically, because less peak depreciation.

THE CHAIRMAN: Was that a sudden change in policy resulting from the depression which caused that adjustment in the historic cost by trending it upward and taking into account the lower purchasing value of the monetary unit?

MR. WARTERFIELD: I do not believe that entered into it; I believe it was a matter for administration and legal procedure to determine a rate based as exactly as what it turned out to be.

THE CHAIRMAN: You cannot tell us whether

that applies in the electricity field?

MR. WARTERFIELD: I cannot, sir.

THE CHAIRMAN: Would you say that deferred income tax could probably be included as part of the rate base?

MR. WARTERFIELD: I have never so regarded it. I have taken the full income composite upon the earnings before income tax as a full cost in all of my calculations in fixing a rate or estimating a rate. There may internal accounting method which are very much widened.

THE CHAIRMAN: Where do you draw the line in the amount of working capital?

MR. WARTERFIELD: Giving the company as a going concern, the amount of working capital including, but not limited to, operating material and supplies for a reasonable period plus the length of time between the time that service is performed and the collection upon that service is made allowing for lapses in the normal transactions of business.

THE CHAIRMAN: Do you distinguish between the value of service and the cost of service?

MR. WARTERFIELD: There again, sir, we may say there are a number of terms which mean the same things and we have things that have quite a different number of terms.

THE CHAIRMAN: You would readily acknowledge those two would be clearly understood?

MR. WARTERFIELD: My terms, in reference to those two, is that a rate is the value of the service and that a cost of service is just what it say; the cost of making that service available.

THE CHAIRMAN: Then you would apply the 7% on the value of the service as distinguished from the cost of service?

MR. WARTERFIELD: The value of the service is the gross revenue received from the point of origin to destination territories. In other words, that tariff itself is the value of that service which is being paid for.

THE CHAIRMAN: And not the cost of service plus a return?

MR. WARTERFIELD: No, sir; the value of the service, presumably, enters into the value of the service rates because of service plus profits.

THE CHAIRMAN: So the more competition you have, the less value there might be in the rate?

MR. WARTERFIELD: It is possible.

MR. FRAWLEY: One question arising out of what the Chairman was asking you: in the cost of service deferred taxes are not charged against income.

MR. WARTERFIELD: I am not qualified to discuss with you, sir, internal accounting of tax matters.

MR. FRAWLEY: You are aware or are you not aware that in the ICC for ratemaking purposes as well

as for accounting purposes deferred taxes are not allowed to be charged by the carrier against income.

MR. WARTERFIELD: I am not aware of that at all, sir.

MR. MATHIESON: I direct the question to Mr. Warterfield. Have you examined the rate structure of Interprovincial Pipe Line Company?

MR. WARTERFIELD: I have.

MR. MATHIESON: And what is the result of your examination?

MR. WARTERFIELD: In examining the rate structure of Interprovincial, I proceeded in exactly the same identical manner as outlined previously to Mr. Pattillo. I reviewed in the brief which was filed the orderly manner in which the construction program was conducted and utilized in bringing the system to its present phase. The relatively short service life to date of the physical property led me to, by judgment, estimate that the reproduction cost as of December 31, 1957, less actual accrued depreciation, would be substantially the same as the book cost of the carrier in planning investment as reflected in their statement of that year. A further examination of that same report disclosed the fact that earnings after taxes represented roughly 4.1%, as I recall the figure, on the book cost as of December 31, 1957, and I believe 4.6% of book cost less depreciation for the same period. It appeared, therefore, that the tariff structure currently in effect was producing gross revenue in an amount sufficient to pay the operating costs and charges and provide for their payment; and with an

allowance for income taxes and with the 1958 forecast of deliveries as being the system throughput for the year 1958 and the cost for 1957 as being the best evidence of what might likely be expended for the same item in 1958, a composite system rate was developed which was done independently of any negotiation or any competition or anything else which may have occurred in prior years in building up the rate structure. Having the composite rate, it was then a matter of going into the rate guide chart for the route mile concerned from each point of the origin to destination and picking off at the curve a rate for this point. Two trials were made before an adjustment was reached wherein the rate to that destination produced a gross revenue which, after provision for operating cost and other charges, gave a net return after income taxes of 4.2% from the so regarded fair value of the property. These rates were then place on a chart and there was graphed the trend of these rates and the parabolic resulting per barrel per 100 mile curve was constructed. After that was done the rates of Interprovincial were superimposed upon the same chart and they coincided with sufficient closeness to say that a theoretically determined schedule of rates and the actual rates as developed by Interprovincial were substantially in agreement.

MR. MATHIESON: Just to be clear, in

stantial agreement with what?

MR. WARTERFIELD: The actual rates as they are now posted by Interprovincial were substantially in agreement with the rate structure which would be established for the same system today if we were starting out in the line of business as of January 31st of this year.

MR. FRAWLEY: Mr. Chairman, I should like very much to make a brief observation. I don't quite appreciate the purpose of this evidence. It is in the record that the Board of Transport Commissioners, the only rate regulating body in Canada that has anything to say about interprovincial rates, has not had the matter before it at all. As I understand the evidence, he has used a fair value, a reproduction value.

In the calculations that you used in arriving at your opinion, Mr. Warterfield, did you use the fair value?

MR. WARTERFIELD: I regarded the book cost of the carrier as being the fair value at December 31, 1957.

MR. FRAWLEY: You did not endeavour to ascertain the reproduction cost today.

MR. WARTERFIELD: That would have been a tremendous undertaking and would probably have occuppied a year's time.

MR. FRAWLEY: Then I think I have heard

you say that you allowed as expense the total provision for income taxes, not only the taxes paid but the taxes provided for by Interprovincial.

MR. WARTERFIELD: The total liability for income taxes.

MR. FRAWLEY: Now, you mainly have had experience in the United States.

MR. WARTERFIELD: That is correct, sir.

MR. FRAWLEY: And you know -- or if you do not know I should like to show you now a letter which I received from the Director, Bureau of Accounts, of the Interstate Commerce Commission, in which he attached a copy of the statement of Lakehead Pipe Line Company Incorporated for the year ended December 31, 1956. If you read his letter, I put it to you that you will find that Lakehead did not even attempt to charge income with anything but taxes because the I.C.C. would not allow them to do anything else.

MR. WARTERFIELD: I think I explained a moment ago that I am not competent to discuss internal tax accounting with you.

MR. FRAWLEY: Mr. Chairman, the witness says that he is not competent to discuss internal tax accounting. He has said that the test he has applied is the test he has given me, and therefore he cannot avoid answering my question by saying that he is not sufficiently versed in accounting.

I ask you simply to look at the document, and I will go further and ask the Commission to

receive that document and have it filed because of the evidence Mr. Warterfield is offering. There isn't any question, Mr. Chairman, about the position of Interprovincial, and I want to get it on the record.

THE CHAIRMAN: I think it is on the record as far as we are prepared to accept it as hearsay. There is nobody from I.C.C. to tell us what their practice is, Mr. Frawley.

MR. FRAWLEY: No, sir. I would like to make the statement, if I may, as a result of my communications with I.C.C., having in mind this particular operation of Lakehead Pipe Line, that the charging of total taxes to income would not be and is not permitted, nor does Lakehead endeavour to do it at all. I think with that I would be satisfied. I simply say in conclusion that until the Board of Transport Commissioners has examined this rate structure critically to either approve or disapprove of it rankly, I may say that opinions of this kind are not of any value.

THE CHAIRMAN: Oh, I wouldn't say that, Mr. Frawley. I think they can be most helpful to the Commission. I can understand from your point of view that you are holding that view.

MR. COMMISSIONER HARDY: Would you illustrate, Mr. Warterfield, briefly, how this procedure would operate in the case of Interprovincial

making an extension to the Montreal area?

MR. WARTERFIELD: I regard it as operating in identically the same manner for the purposes of establishing an initial group of rates. The effect on short or immediate delivery points will be brought out if that is done. That this may have a desirable or undesirable effect is a matter for determination. It may also disclose certain factors in connection with competition by other movers or other pipeline carriers, but you have constructed a guide rate structure which is consistent, and it is not at all unusual for that guide rate structure to receive severe alteration depending upon conditions.

MR. COMMISSIONER HARDY: That step would come about just when you apply this value of service criterion.

MR. WARTERFIELD: When you have your estimates of cost more firmly determined.

MR. COMMISSIONER HARDY: But what significance would you apply in your analysis to just the physical factor that you might arrive at a figure for delivery to Montreal less than the figure for delivery to Toronto?

MR. WARTERFIELD: Following this procedure, that will not occur.

MR. COMMISSIONER HARDY: It will not occur?

MR. WARTERFIELD: No, sir, it cannot occur.

THE CHAIRMAN: Mr. Pattillo, is there anything further?

MR. PATTILLO: Nothing more, Mr. Chairman.

THE CHAIRMAN: Are there any further questions of the Interprovincial Pipe Line Company officials?

MR. PATTILLO: I have nothing more, Mr. Chairman.

THE CHAIRMAN: Well, I want to thank you, Mr. Warterfield, for coming and giving your evidence. We appreciate the position that you have, the experience you have in the United States. Thank you.

Mr. Johnston, on behalf of the Commission I want to thank you and your colleagues for the brief which you have submitted to the Commission, which has been most helpful, and also for the courteous and co-operative manner in which you and your associates have answered the questions. Thank you very much.

I believe, gentlemen, that we were under obligation to relinquish this room five minutes ago to the hotel - -

MR. JOHNSTON: Mr. Chairman, could I interrupt one minute? You may recall at the start of this hearing that we mentioned we had Mr. Ratcliffe and we had asked him to appear. Unfortunately he couldn't get here until tonight, and at that time we asked, if he did arrive late, if he could be put on. We would like to have Mr. Ratcliffe testify for a few minutes tomorrow morning if that would be

convenient. He gets in at eight o'clock tonight.

THE CHAIRMAN: Perfectly all right, Mr. Johnston.

We will adjourn now, gentlemen, until ten o'clock tomorrow morning in this room, and we will go on with Mr. Ratcliffe if he is here, Mr. Johnston, and then I believe the submission of the Shell Oil Company will be before the Commission. Is that correct, Mr. Parkinson?

MR. PARKINSON: That is correct, Mr. Chairman.

THE CHAIRMAN: The hearing is now adjourned till ten o'clock tomorrow morning.

---Whereupon the hearing adjourned, at 4.05 p.m., until 10.00 a.m., Friday, May 2, 1958, in the Palliser Hotel, Calgary.